

NEW ISSUE - BOOK-ENTRY ONLY

In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein: (i) interest on the Subordinate Series 2001B Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"); and (ii) interest on the Subordinate Series 2001B Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. INTEREST ON THE SENIOR SERIES 2001A BONDS IS INCLUDED IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES PURSUANT TO THE CODE. In addition, in the opinion of Bond Counsel, under existing statutes, the 2001 Bonds and the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth. See "TAX MATTERS" herein for a description of certain other provisions of the Code that may affect the tax treatment of interest on the 2001 Bonds for certain Bondholders.

\$150,000,000

KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION

\$59,850,000 Taxable Student Loan Revenue Bonds, Senior Series 2001A-1

\$59,850,000 Taxable Student Loan Revenue Bonds, Senior Series 2001A-2

\$30,300,000 Student Loan Revenue Bonds, Subordinate Series 2001B

(Auction Rate Securities)

Dated: Date of Delivery

Due: May 1, 2031

The 2001 Bonds (as defined herein) are issuable in fully-registered form and when issued shall be registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"), which shall act as Securities Depository for the 2001 Bonds. Purchasers of the 2001 Bonds will not receive certificates representing their beneficial ownership interests in the 2001 Bonds. Purchases and sales by the Beneficial Owners (as defined herein) of the 2001 Bonds shall be made in book entry form in the principal amount of \$50,000 or any integral multiple thereof. See "BOOK-ENTRY SYSTEM" herein.

Payments of principal, redemption price, and interest with respect to the 2001 Bonds are to be made directly to DTC by Bank One, Kentucky, NA (the "Trustee" and "Paying Agent") or its successor Trustee, so long as DTC or Cede & Co. is the registered owner of the 2001 Bonds. Disbursements of such payments to DTC Agent Members (as defined herein) are the responsibility of DTC and the disbursements of such payments to the Beneficial Owners are the responsibility of DTC Agent Members as more fully described herein.

The Senior Series 2001A Bonds, consisting of the Senior Series 2001A-1 and the Senior Series 2001A-2, and the Subordinate Series 2001B Bonds are being issued by the Kentucky Higher Education Student Loan Corporation (the "Corporation"), an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky, pursuant to the provisions of the 1997 General Bond Resolution (the "General Bond Resolution") adopted by the Corporation on May 9, 1997, and, respectively, to a Series 2001A Resolution and a Series 2001B Resolution (each a "Series Resolution") each adopted by the Corporation on July 20, 2001, to provide funds for the origination or purchase of Student Loans (as defined herein).

The Senior Series 2001A Bonds and the Subordinate Series 2001B Bonds (collectively, the "2001 Bonds") are being issued as Auction Rate Securities ("Auction Rate Securities"). Interest on the Senior Series 2001A Bonds, prior to a change in the Interest Payment Dates as described herein, shall be payable on the Business Day following the end of each Interest Period as described herein. Interest on the Subordinate Series 2001B Bonds, prior to any change in the Interest Payment Date as described herein, is payable on November 1, 2001 and semiannually on each May 1 and November 1 thereafter until maturity or earlier redemption. The Senior Series 2001A Bonds are equivalent in right of payment under the General Bond Resolution with the Senior Series 2000A Bonds, the Senior Series 2000B Bonds, the Senior Series 1999A Bonds, the Senior Series 1999B Bonds, the Senior Series 1998A Bonds, the Senior Series 1998B Bonds and the Senior Series 1997-A Bonds, and with all other Senior Obligations which may be issued thereunder in the future, and are senior in right of payment under the General Bond Resolution to the Subordinate Series 2001B Bonds and the Subordinate Series 1997-B Bonds, and to all Senior Subordinate Obligations and Subordinate Obligations which may be issued thereunder in the future. The Subordinate Series 2001B Bonds are subordinate in right of payment under the General Bond Resolution to the Senior Series 2001A Bonds, the Senior Series 2000A Bonds, the Senior Series 2000B Bonds, the Senior Series 1999A Bonds, the Senior Series 1999B Bonds, the Senior Series 1998A Bonds, the Senior Series 1998B Bonds and the Senior Series 1997-A Bonds, and to all other Senior Obligations and Senior Subordinate Obligations which may be issued thereunder in the future, and are equivalent in right of payment under the General Bond Resolution with the Subordinate Series 1997-B Bonds, and with all other Subordinate Obligations which may be issued thereunder in the future. The 2001 Bonds are subject to redemption prior to maturity as described herein.

THE 2001 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE CORPORATION, SECURED BY AND PAYABLE FROM SPECIFIC REVENUES, FUNDS, AND PROPERTIES PLEDGED THEREFOR AS HEREIN DESCRIBED. THE 2001 BONDS DO NOT CONSTITUTE A DEBT OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE 2001 BONDS IS NOT SECURED BY A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. KENTUCKY'S NAME IS ON THE 2001 BONDS FOR THE BENEFIT AND CONVENIENCE OF OTHER ENTITIES IN THE COMMONWEALTH. HOWEVER, THE ONLY SECURITY WHICH IS PLEDGED FOR THE 2001 BONDS IS THE INDEPENDENT REVENUES AND ASSETS FROM THE PROJECT. THE GENERAL ASSEMBLY DOES NOT INTEND TO APPROPRIATE ANY COMMONWEALTH FUNDS TO FULFILL THE FINANCED OBLIGATIONS REPRESENTED BY THE 2001 BONDS. THE CORPORATION HAS NO TAXING POWER.

The 2001 Bonds are offered when, as and if received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Hawkins, Delafield & Wood, New York, New York, Bond Counsel. Certain legal matters in connection with the 2001 Bonds will be passed upon for the Underwriter by its counsel, Squire, Sanders & Dempsey L.L.P. The 2001 Bonds are expected to be available for delivery in New York, New York on or about July 27, 2001.

Salomon Smith Barney

Dated: July 20, 2001

The information set forth herein has been obtained from the Corporation, the Kentucky Higher Education Assistance Authority ("KHEAA") and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or KHEAA or that the information or opinions or estimates are correct as of any date subsequent to the date hereof.

No dealer, broker, salesman or other person has been authorized by the Corporation, KHEAA or the Underwriter to give any information or to make any representations with respect to the 2001 Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2001 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Except for any information provided by the Trustee concerning the Trustee, the Trustee has no responsibility for any information in this Official Statement. Further, the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the 2001 Bonds, except to the extent that the Trustee has agreed to forward continuing disclosure materials received from and prepared by the Corporation to the appropriate Repository.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2001 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
USE OF PROCEEDS	2
SOURCES AND USES OF FUNDS	3
Initial Collateralization	3
SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS.....	3
Limited Liability	3
The Pledge of the General Bond Resolution	3
Principal and Interest Payments on FFELP Loans	4
Special Allowance Payments on FFELP Loans	4
Debt Service Reserve Account	4
Withdrawal of Excess Coverage	5
Additional Bonds and Other Obligations	5
CERTAIN RISK FACTORS	5
Certain Considerations Affecting the Receipt of Revenues in the Trust Estate	5
Noncompliance with Certain Higher Education Act Requirements	6
Basis Risk	6
Uncertainty as to Available Remedies	7
Reliance on Rating Affirmations	7
DESCRIPTION OF THE 2001 BONDS	7
General.....	7
Redemption Provisions	8
Registration of Transfer and Exchange	9
BOOK-ENTRY SYSTEM.....	9
AUCTION RATE SECURITIES.....	11
General Terms	11
Auction Participants.....	12
Existing Holders and Potential Holders	12
Auction Agent.....	12
Broker-Dealer	13
Market Agent	13

Interest Rate on the Senior Series 2001A Bonds	13
Carry-over Amount on the Senior Series 2001A Bonds.....	15
Auction Period Adjustment for the Senior Series 2001A Bonds	16
Conversion and Auction Period Conversion of and Mandatory Tender of the Senior Series 2001A Bonds	16
Conversion	16
Auction Period Conversion	17
Interest Rate on the Subordinate Series 2001B Bonds	17
Auction Period Adjustment for the Subordinate Series 2001B Bonds	19
Conversion and Auction Period Conversion of and Mandatory Tender of the Subordinate Series 2001B Bonds	19
Conversion	19
Auction Period Conversion.....	19
THE CORPORATION	19
Governance and Functions.....	19
Principal Management Personnel.....	21
The Corporation's Education Finance and Servicing Activities	22
General.....	22
FFELP Loan Origination and Acquisition	22
FFELP Loan Financing.....	22
Outstanding Student Loan Revenue Bonds.....	22
Student Loans Securing Student Loan Revenue Bonds	23
Availability of Student Loans	24
Servicing of FFELP Loans and Other Education Loans	24
GUARANTY AGENCIES	25
General.....	25
The Kentucky Higher Education Assistance Authority	26
KHEAA's Loan Guarantee Program.....	26
Loan Insurance Fund.....	27
No Pledge of KHEAA's Funds and Assets	27
CONTINUING DISCLOSURE.....	28
General.....	28
Annual Financial Information	29
Event Notice	29
Definitions	29
Repository.....	30
TAX MATTERS	30
Opinion of Bond Counsel	30
Certain Tax Information with respect to Senior Series 2001A Bonds.....	30
Certain Tax Information with respect to Subordinate Series 2001B Bonds	30
Certain Ongoing Federal Tax Requirements and Covenants	31
Certain Collateral Federal Tax Consequences	31
Legislation	31
LEGALITY FOR INVESTMENT.....	31
ABSENCE OF MATERIAL LITIGATION	32
APPROVAL OF LEGALITY	32
RATINGS	32
UNDERWRITING	32
APPROVAL OF ISSUANCE OF THE 2001 BONDS.....	32
INDEPENDENT ACCOUNTANTS	32
MISCELLANEOUS	32
SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY	
EDUCATION LOAN PROGRAM.....	APPENDIX A
SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS.....	APPENDIX B
AUDITED FINANCIAL STATEMENTS OF THE CORPORATION	APPENDIX C
PROPOSED FORMS OF APPROVING OPINIONS OF BOND COUNSEL	APPENDIX D
AUCTION PROCEDURES FOR THE SENIOR SERIES 2001A BONDS.....	APPENDIX E-1
AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS	APPENDIX E-2
SETTLEMENT PROCEDURES FOR THE SENIOR SERIES 2001A BONDS	APPENDIX F-1
SETTLEMENT PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS.....	APPENDIX F-2

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OFFICIAL STATEMENT

KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION
\$59,850,000 Taxable Student Loan Revenue Bonds, Senior Series 2001A-1
\$59,850,000 Taxable Student Loan Revenue Bonds, Senior Series 2001A-2
\$30,300,000 Student Loan Revenue Bonds, Subordinate Series 2001B
(Auction Rate Securities)

INTRODUCTION

This Official Statement sets forth certain information concerning the Kentucky Higher Education Student Loan Corporation (the "Corporation"), an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"), and its issue of \$119,700,000 in aggregate principal amount of Taxable Student Loan Revenue Bonds, consisting of \$59,850,000 of Senior Series 2001A-1 (the "Senior Series 2001A-1 Bonds"), \$59,850,000 of Senior Series 2001A-2 (the "Senior Series 2001A-2 Bonds," and, collectively with the Senior Series 2001A-1 Bonds, the "Senior Series 2001A Bonds"), and \$30,300,000 in aggregate principal amount of its Student Loan Revenue Bonds, Subordinate Series 2001B (the "Subordinate Series 2001B Bonds"). The Senior Series 2001A Bonds and the Subordinate Series 2001B Bonds are referred to collectively herein as the "2001 Bonds." The 2001 Bonds are being issued pursuant to the provisions of Sections 164A.010 to 164A.230, Kentucky Revised Statutes, as amended (the "Act"), a 1997 General Bond Resolution adopted by the Corporation on May 9, 1997 (as amended and supplemented from time to time, the "General Bond Resolution") and, respectively, a Series 2001A Bond Resolution and a Series 2001B Bond Resolution, each adopted by the Corporation on July 20, 2001 (each a "Series Resolution" and, collectively with the General Bond Resolution, the "Resolutions"). Capitalized terms used and not otherwise defined herein shall have the meanings given them in Appendix B – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS," Appendix E-1 – "AUCTION PROCEDURES FOR THE SENIOR SERIES 2001A BONDS," and Appendix E-2 – "AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS."

The 2001 Bonds constitute Additional Obligations pursuant to the General Bond Resolution. The Corporation has heretofore issued several Series of its Student Loan Revenue Bonds thereunder, of which \$430,450,000 Senior Obligations and \$44,550,000 Subordinate Obligations remain Outstanding. The General Bond Resolution permits the issuance of additional bonds (the "Additional Bonds") or other Obligations through the adoption of additional Series Resolutions. The priority of claim as to payment of such Additional Bonds or other Obligations under the Resolutions may be equal to or inferior to the Senior Series 2001A Bonds and may be equal to or superior to the Subordinate Series 2001B Bonds. The General Bond Resolution also permits the Corporation to enter into Obligation Facilities or Swap Facilities the payment of which by the Corporation shall have the same priority of claim as to payment under the General Bond Resolution as does the Series of Bonds or other Obligations to which such Obligation or Swap Facilities relate.

The Senior Series 2001A Bonds are equivalent in right of payment under the General Bond Resolution with the Senior Series 2000A Bonds, the Senior Series 2000B Bonds, the Senior Series 1999A Bonds, the Senior Series 1999B Bonds, the Senior Series 1998A Bonds, the Senior Series 1998B Bonds and the Senior Series 1997-A Bonds (collectively, the "Prior Senior Bonds"), and with all other Senior Obligations which may be issued thereunder in the future, and are senior in right of payment under the General Bond Resolution to the Subordinate Series 2001B Bonds and the Subordinate Series 1997-B Bonds (the "Prior Subordinate Bonds"), and to all other Senior Subordinate Obligations and Subordinate Obligations which may be issued thereunder in the future. The Subordinate Series 2001B Bonds are subordinate in right of payment under the General Bond Resolution to the Senior Series 2001A Bonds, the Prior Senior Bonds, and to all other Senior Obligations and Senior Subordinate Obligations which may be issued thereunder in the future, and are equivalent in right of payment under the General Bond Resolution with the Prior Subordinate Bonds, and with all other Subordinate Obligations which may be issued thereunder in the future. The series resolutions for the Prior Senior Bonds and the Prior Subordinate Bonds provide that the Prior Senior Bonds and the Prior Subordinate Bonds originally issued as Auction Rate Securities may be converted to bear interest at a Variable Rate, as more fully described in therein.

Subject to the provisions of the General Bond Resolution, a Trust Estate including the following assets is pledged to the payment of the principal of, redemption price, if any, and interest on the 2001 Bonds, any Additional Bonds and any other Obligations: (i) all moneys, including Bond proceeds, held in any of the funds and accounts (other than the Rebate Account) established and held under the Resolutions or received by the Trustee for deposit in such funds and accounts (other than the Rebate Account); (ii) all Loans, the Corporation's right, title and interest in which is funded through the application of assets described in (i) above, along with all documentation thereof and all rights of the Corporation with respect thereto except as expressly provided in the Resolutions; (iii) all guarantee or insurance payments with respect to Loans and interest thereon described in (ii) above; (iv) all other Revenues; and (v) all direct or indirect proceeds of any of the assets described in (i) through (iv) above.

The 2001 Bonds are subject to redemption as more fully described herein under the caption "DESCRIPTION OF THE 2001 BONDS – Redemption Provisions." Further, the Series Resolutions provide that the 2001 Bonds originally issued as Auction Rate Securities may be converted to bear interest at a Variable Rate or a Fixed Rate, as more fully described in the Series Resolutions. This Official Statement, in general, describes the Series 2001 Bonds only while bearing interest as Auction Rate Securities. See "AUCTION RATE SECURITIES – Conversion and Auction Period Conversion of and Mandatory Tender of the Senior Series 2001A Bonds" and "— Conversion and Auction Period Conversion of and Mandatory Tender of the Subordinate Series 2001B Bonds." The Trustee is the initial Paying Agent and Registrar for the 2001 Bonds. Descriptions of the Corporation, the Guaranty Agencies (as herein defined), the 2001 Bonds, the Corporation's education finance and servicing activities, the Resolutions and related documents are included in this Official Statement. The descriptions of such documents included in this Official Statement do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, which documents are on file with the Trustee.

USE OF PROCEEDS

The Senior Series 2001A Bonds and the Subordinate Series 2001B Bonds are being issued to provide funding for the acquisition, origination or refinancing by the Corporation of Student Loans in accordance with the Resolutions and the Act. The Corporation currently expects to apply all 2001 Bond proceeds initially available to finance Student Loans by March 1, 2002 to the acquisition, origination or refinancing of Student Loans which are originated pursuant to the Federal Family Education Loan Program ("FFELP Loans") and are guaranteed by the Kentucky Higher Education Assistance Authority ("KHEAA"). See "DESCRIPTION OF THE 2001 BONDS – Redemption Provisions" and Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Legislative and Administrative Matters." Such Student Loans may include Student Loans which currently secure other Corporation obligations. See "THE CORPORATION – The Corporation's Education Finance and Servicing Activities – *FFELP Loan Financing*." The Corporation reserves the right to apply amounts held under the Resolutions to finance FFELP Loans which are guaranteed by Guaranty Agencies other than KHEAA and to finance Student Loans which are not FFELP Loans, subject to the provisions of the Resolutions. See "DESCRIPTION OF THE 2001 Bonds – Redemption Provisions – *Mandatory Redemption of Senior Series 2001A Bonds and Subordinate Series 2001B Bonds From Unexpended Bond Proceeds*" and "THE CORPORATION – The Corporation's Education Finance and Servicing Activities." The Corporation expects to apply a portion of the 2001 Bond proceeds to fund the Debt Service Reserve Account in the amount of the Initial Reserve Account Requirement and to pay costs of issuance in connection with the 2001 Bonds. The Corporation may also transfer funds in the Revenue Account to the Loan Account to be used to acquire or originate additional Student Loans until March 1, 2002, which date may be extended if a Rating Affirmation is obtained.

SOURCES AND USES OF FUNDS

Sources

Bond Proceeds	\$150,000,000
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Uses

Deposit in Loan Account	\$146,322,300
Deposit in Debt Service Reserve Account	\$3,000,000
Payment of Costs of Issuance including underwriter's discount (\$467,250)	\$677,700
Total Uses	\$150,000,000

Initial Collateralization

Upon issuance of the 2001 Bonds, it is anticipated that the value of the Assets pledged under the Resolution will be equal to approximately 113.05% of the aggregate principal amount of the then Outstanding Senior Bonds and equal to approximately 99.51% of the aggregate principal amount of all Bonds then Outstanding. The Resolution does not require that these levels of collateralization be established or maintained.

SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS

Limited Liability

The 2001 Bonds are special and limited obligations of the Corporation, secured by and payable from specific revenues, funds, and properties pledged therefore as herein described. The 2001 Bonds do not constitute a debt of the Commonwealth or any political subdivision thereof. The payment of the principal of and interest on the 2001 Bonds is not secured by a pledge of the faith and credit of the taxing power of the Commonwealth or any political subdivision thereof. Kentucky's name is on the 2001 Bonds for the benefit and convenience of other entities in the Commonwealth. However, the only security which is pledged for the 2001 Bonds is the independent revenues and assets from the project. The General Assembly does not intend to appropriate any Commonwealth funds to fulfill the financed obligations represented by the 2001 Bonds. The Corporation has no taxing power.

The Pledge of the General Bond Resolution

The Act provides that any pledge made by the Corporation shall be valid and binding from the time made and further provides that the income, revenue or other property so pledged and thereafter received by the Corporation shall immediately be subject to the lien of such pledge without any physical delivery or further act, and that the lien of any such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation irrespective of whether such parties have notice thereof.

The General Bond Resolution establishes a pledge of the Trust Estate for the benefit of Owners of all Obligations on a basis of parity and, subject to the provisions of the General Bond Resolution, permitting the application thereof for the purposes of and on the terms and conditions set forth in the General Bond Resolution and provides that such pledge constitutes a perfected first lien thereon. The Trust Estate includes the following: (i) all moneys, including Bond proceeds, held in any of the funds and accounts (other than the Rebate Account) established and held under the Resolutions or received by the Trustee for deposit in such funds and accounts (other than the Rebate Account); (ii) all Loans, the Corporation's right, title and interest in which is funded through the application of assets described in (i) above, along with all documentation thereof and all rights of the Corporation with respect thereto except as expressly provided in the Resolutions; (iii) all guarantee or insurance payments with respect to Loans and interest thereon described in (ii) above; (iv) all other Revenues; and (v) all direct or indirect proceeds of any of the assets described in (i) through (iv) above.

Principal and Interest Payments on FFELP Loans

Payments of the principal of and interest on the Loans, including Interest Subsidy Payments, if any, with respect to FFELP Loans, are expected to be received by the Corporation in amounts sufficient, together with other revenues and amounts held under the Resolutions, to pay the principal of and interest on the 2001 Bonds when due. The Corporation is entitled to receive Interest Subsidy Payments from the Secretary of the United States Department of Education ("Secretary") with respect to each Federal Subsidized Stafford Loan for the entire amount of interest due on such loan during the period the student is in school, during grace periods, and during periods of deferment. During all other periods, interest on Federal Subsidized Stafford Loans is collected from the borrower. On Federal PLUS/SLS, Federal Unsubsidized Stafford Loans, and Federal Consolidation Loans, the Corporation collects interest payments from the borrower from the date of loan disbursement. Repayment of Federal Consolidation Loans commences within 60 days of the discharge of the lenders of the consolidated loans. For additional information on the FFELP Loans, see "THE CORPORATION" and "THE GUARANTY AGENCIES" herein and Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM."

Special Allowance Payments on FFELP Loans

The Corporation is also entitled to receive Special Allowance Payments with respect to FFELP Loans which the Secretary is required by the Higher Education Act to pay on a quarterly basis. The amount of Special Allowance Payments depends, among other things, upon the interest rate on the FFELP Loan to which it relates, the date on which such FFELP Loan was originated and, under certain circumstances, whether such FFELP Loan is financed on a taxable or tax-exempt basis. For further information on Special Allowance Payments, see Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM– Special Allowance Payments."

Debt Service Reserve Account

The 2001 Bonds are secured by a Debt Service Reserve Account which is created by the General Bond Resolution and pledged to the security of all Obligations issued under the Resolutions. The Debt Service Reserve Account shall at all times be maintained at a level at least equal to the aggregate requirement therefor established under the Resolutions. The Initial Reserve Account Requirement established in connection with the issuance of the 2001 Bonds is 2% of the aggregate principal amount Outstanding of the 2001 Bonds, subject to a \$500,000 overall Debt Service Reserve Account minimum aggregate requirement. There is no assurance that the Reserve Account Requirement will be increased or maintained at such level and funded upon the issuance of any Additional Bonds or other Obligations. Upon the issuance of any Additional Bonds or other Obligations, amounts in the Debt Service Reserve Account shall also secure payment of such Additional Bonds or other Obligations in accordance with the priority of payment established under the Resolutions. See Appendix B – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – Establishment of Accounts."

Prior to using any moneys in the Debt Service Reserve Account to make payments with respect to any Obligations, the Trustee is required to use amounts credited as cash to the Loan Account, without liquidating Loans credited thereto, and to deposit such amounts in the Revenue Account for the purpose of making such payments on the Obligations. Under the General Bond Resolution, the Trustee is required, on each Interest Payment Date, to transfer from the Revenue Account to the Debt Service Reserve Account, the amount, if any, necessary to cause the Debt Service Reserve Account to be funded at the Reserve Account Requirement, subsequent to paying the amounts due on the Senior Series 2001A Bonds, the Prior Senior Bonds or any other Senior Bonds or other Obligations equal in priority with the Senior Series 2001A Bonds and the Prior Senior Bonds which may be issued and certain other applications, but prior to making any payment on any Senior Subordinate Obligations or on the Subordinate Series 2001B Bonds, the Prior Subordinate Bonds or other Subordinate Obligations. See Appendix B – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – Establishment of Accounts."

The Corporation reserves the right to deposit with the Trustee a Reserve Fund Facility in satisfaction of the Reserve Account Requirement applicable to the 2001 Bonds upon receipt of a Rating Affirmation.

Withdrawal of Excess Coverage

The General Bond Resolution provides that the Corporation may withdraw amounts from the Revenue Account, under certain circumstances, free and clear of the lien of the General Bond Resolution if, as certified to the Trustee by an Authorized Officer, there exists Excess Coverage after such withdrawal, and if the Corporation delivers a Cash Flow Projection to the Rating Agency, as provided in the General Bond Resolution. See Appendix B – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – Definitions” and “– Establishment of Accounts.”

Additional Bonds and Other Obligations

The General Bond Resolution permits the issuance of Additional Bonds, or other Obligations, including Variable Rate Demand Bonds or Obligations, subject to certain conditions specified in the General Bond Resolution. The priority of claim as to payment of such Additional Bonds or other Obligations under the General Bond Resolution may be equal to or inferior to that of the Senior Series 2001A Bonds and the Prior Senior Bonds or may be superior or equal to that of the Subordinate Series 2001B Bonds or the Prior Subordinate Bonds.

The General Bond Resolution also permits the Corporation to undertake additional Obligations pursuant to certain types of contracts (“Obligation Facilities” or “Swap Facilities”). The priority of payment of Obligation Facilities or Swap Facilities may be equal to or inferior to that of the Senior Series 2001A Bonds, the Prior Senior Bonds and any other Senior Obligations or equal to or superior to that of any Subordinate Obligations, including the Subordinate Series 2001B Bonds and the Prior Subordinate Bonds.

Prior to issuing Additional Bonds or entering into Obligation Facilities or Swap Facilities, the Trustee is required to receive a Rating Affirmation from each Rating Agency maintaining a rating on the 2001 Bonds that issuing such Additional Bonds or entering into such Obligation Facilities or Swap Facilities in and of itself will not have an adverse effect on the rating of any Outstanding Bonds.

CERTAIN RISK FACTORS

Investors should consider the factors set forth below in light of the payment priorities of the Senior Series 2001A Bonds, the Prior Senior Bonds and any other Senior Obligations over the Subordinate Series 2001B Bonds, the Prior Subordinate Bonds and any other Subordinate Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS – Additional Bonds and Other Obligations.” **This section of this Official Statement does not include all risk factors, but is an attempt to summarize certain of such matters. Investors should read this Official Statement in its entirety.**

Certain Considerations Affecting the Receipt of Revenues in the Trust Estate

The availability under the General Bond Resolution of adequate amounts to fund the timely payment of Obligation debt service and other expenses required to be paid thereunder is dependent upon the performance of the Student Loans to be acquired as part of the Trust Estate pledged thereunder. The Corporation currently expects to apply all 2001 Bond proceeds initially available to finance Student Loans by March 1, 2002 to the acquisition, origination or refinancing of a portfolio of FFELP Loans. The Corporation further expects that substantially all Student Loans to be acquired, originated or refinanced through the expenditure of 2001 Bond proceeds, or other amounts becoming available in the Trust Estate, will be Student Loans which have been or will be originated subsequent to July 1, 1994 and that a substantial portion of such Student Loans have been or will be originated subsequent to January 1, 2000. See “USE OF PROCEEDS” and Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Legislative and Administrative Matters.” The Corporation’s current expectation that Revenues received with respect to the Student Loan portfolio will be sufficient to fund General Bond Resolution requirements, and the initial rating assigned to the 2001 Bonds by the Rating Agency, is based upon cash flow projections derived from certain assumptions relative to Student Loan portfolio composition and performance. The Corporation believes such assumptions to be reasonable based upon its historic and current FFELP Loan experience. There can be no assurance, however, that actual Student Loan portfolio results will conform to such projections. See “THE CORPORATION – The Corporation’s Education Finance and Servicing Activities.”

Revenues actually received with respect to the Student Loans may vary greatly in both timing and amount as a result of a variety of economic, social and other factors, including both individual factors, such as additional periods of deferral or forbearance prior to or after a borrower's commencement of repayment, loan consolidations or refundings, and general factors, such as a general economic downturn which could increase the amount of defaulted FFELP Loans. Failures by borrowers, guaranty agencies and the federal Department of Education ("Department") to make payments with respect to Student Loans on a timely basis, and the incidence of borrower defaults and prepayments, will affect the amount of Revenues received by the Corporation. See Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Federal Insurance and Reinsurance and Reimbursement of Guaranty Agencies."

Noncompliance with Certain Higher Education Act Requirements

The provisions of the Higher Education Act applicable to FFELP Loans, and the implementing regulations thereunder, constitute a comprehensive federal program controlling the terms and conditions of FFELP Loans, including certain fees and other amounts payable by the holders thereof, the administrative requirements applicable thereto and the related duties and permitted activities of FFELP participants. Noncompliance with such requirements with respect to Student Loans by the Corporation or by any other entity might adversely affect payment of principal of and interest on the Bonds when due. The Department has broad powers under the Higher Education Act to assure the compliance of FFELP participants with program requirements and a failure by a participant to so comply may result in substantial penalties, including the withholding by the Department of federal payments otherwise due to such participant under the program. The Department has additional powers under the Higher Education Act with respect to guaranty agencies and their reserves, including the ability, subject to certain requirements, to terminate the activities and to transfer the reserve fund assets of such entities. There can be no assurance that the exercise by the Department of such powers will not adversely affect the interests of Owners of the 2001 Bonds. See "THE CORPORATION – The Corporation's Education Finance and Servicing Activities – *Servicing of FFELP Loans and Other Education Loans*," "GUARANTY AGENCIES" and Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM." Such provisions and regulations have been the subject of extensive amendment in recent years. There can be no assurance that further amendments thereto, or that other federal legislation, will not adversely affect the interests of Owners of the 2001 Bonds. See Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Legislative and Administrative Matters," and "–Federal Direct Student Loan Program."

The Higher Education Act and the applicable regulations thereunder require the lenders, guarantors and servicers to follow certain due diligence procedures in an effort to ensure that Student Loans are properly made and disbursed to, and timely repaid by, the borrowers. Such procedures are specifically set forth in the Code of Federal Regulations and certain other guidance issued by the Department, and no attempt has been made in this Official Statement to completely describe those procedures. Failure to follow such procedures with respect to Student Loans might result in the refusal by the Department to make reinsurance payments to a Guaranty Agency on such Student Loans or might result in the Guaranty Agency's refusal to honor its guarantee on such Student Loans to the Corporation. Such action by the Department could adversely affect a Guaranty Agency's ability to honor guarantee claims with respect to Student loans made by the Corporation, and loss or delay in receipt of guarantee payments to the Corporation by a Guaranty Agency with respect to Student Loans could adversely affect the amount or timing of payment of principal of and interest on the 2001 Bonds. See "THE CORPORATION – The Corporation's Education Finance and Servicing Activities – *Servicing of FFELP Loans and Other Education Loans*," "GUARANTY AGENCIES," and Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM."

Basis Risk

The interest rate for the 2001 Bonds will be an Auction Rate determined in accordance with the Auction Procedures. The Loans, however, generally bear interest at an effective rate (taking into account special allowance payments authorized to be made under the Higher Education Act, or similar allowances, if any, authorized from time to time by federal law or regulations (the "Special Allowance Payments")) (if any, the "Loan Rates") equal to the average bond equivalent rates of weekly auctions of 91-day Treasury bills for each quarter (the "91-day T-Bill

Rate”) (or, in certain circumstances, 52-week Treasury bills) plus margins specified for such Loans. However, Special Allowance Payments on student loans disbursed after January 1, 2000 are computed based upon 90-day commercial paper rates plus specified margins. See Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Legislative and Administrative Matters.” As a result of these differences between the indices or methodologies used to determine the Loan Rates and the interest rates on the 2001 Bonds, there could be periods of time when the Loan Rates applicable to some or all Loans may be inadequate to cover the interest on the 2001 Bonds and Program Expenses.

Uncertainty as to Available Remedies

If an Event of Default occurs under the Resolutions which causes Owners of Senior Obligations to fail to receive interest or principal payments when due, the Trustee is authorized, subject to certain conditions, to sell the Student Loans pledged thereunder. There can be no assurance, however, that the Trustee would be able to find a purchaser for such Student Loans in a timely manner or that the proceeds of any such sale, together with amounts then available in the Debt Service Reserve Account, would be sufficient to fund payment of the Outstanding 2001 Bonds and accrued interest thereon. See Appendix B – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS.”

The remedies available to Owners of the 2001 Bonds upon an Event of Default under the Resolutions or other documents described herein are in many respects dependent upon regulatory and judicial actions which often are subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the federal bankruptcy code), the remedies specified by the Resolutions and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 2001 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Reliance on Rating Affirmations

The Resolutions provide that the Corporation and the Trustee may undertake various actions based upon receipt by the Trustee of confirmation from the Rating Agency that the outstanding respective rating assigned by the Rating Agency to the Bonds is not thereby impaired. Such actions include the execution and delivery of Additional Obligations, the inclusion in the Trust Estate of additional Student Loans which are other than as described herein, and the extension of certain dates for the acquisition or origination of Student Loans. To the extent such actions are taken after issuance of the 2001 Bonds, investors in the 2001 Bonds will be relying on the evaluation by the Rating Agency of such actions and their impact on credit quality. Currently, the only Rating Agency rating the Bonds is Moody’s Investors Service (“Moody’s”). Information on the rating assigned to the 2001 Bonds can be obtained from Moody’s at 99 Church Street, New York, New York 10007.

DESCRIPTION OF THE 2001 BONDS

General

2001 Bonds. The Senior Series 2001A Bonds and the Subordinate Series 2001B Bonds are being issued as Auction Rate Securities (“Auction Rate Securities”). The applicable Auction Rate is to be established from time to time pursuant to Auction Procedures described below under “AUCTION RATE SECURITIES – Interest Rate on the Senior Series 2001A Bonds” and “– Interest Rate on the Subordinate Series 2001B Bonds” as applied separately to the Senior Series 2001A-1 Bonds, the Senior Series 2001A-2 Bonds and the Subordinate Series 2001B Bonds. The 2001 Bonds are expected to be delivered, are dated and will mature as set forth on the cover page hereof. The 2001 Bonds are issued as fully-registered bonds in denominations of \$50,000 or any integral multiple thereof (an “Authorized Denomination”). Initially, the 2001 Bonds will only be registered in the name of Cede & Co. as nominee of DTC. See “BOOK-ENTRY SYSTEM.” Interest on the Senior Series 2001A-1 Bonds and the Senior Series 2001A-2 Bonds, prior to a change in the Interest Payment Date as described below, is payable on the Business Day following the end of each Interest Period, and at maturity or earlier redemption. Interest on the Subordinate Series 2001B Bonds, prior to a change in the Interest Payment Date as described below, is payable on November 1, 2001, and on each May 1 and November 1 thereafter until maturity or earlier redemption; provided,

that if such date is not a Business Day, such interest will be payable on the next succeeding Business Day (but only for interest accrued through the preceding April 30 or October 31 as the case may be). Interest on the Senior Series 2001A Bonds and the Subordinate Series 2001B Bonds is payable to the Beneficial Owners thereof according to the procedures described under "BOOK-ENTRY SYSTEM." Principal of the Senior Series 2001A Bonds and the Subordinate Series 2001B Bonds is payable upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee. The Senior Series 2001A Bonds and the Subordinate Series 2001B Bonds are subject to acceleration and redemption, as described below. Further, the Series Resolutions provide that the 2001 Bonds originally issued as Auction Rate Securities may be converted to bear interest at a Variable Rate or a Fixed Rate, as more fully described in the Series Resolutions.

Redemption Provisions

The Resolutions provide for the redemption and acceleration of the 2001 Bonds prior to maturity, as described below. In the event that the 2001 Bonds are to be redeemed in part, the 2001 Bonds are to be redeemed only in the then Authorized Denominations of such Series and in such maturity or maturities thereof as the Corporation shall determine, and the 2001 Bonds of a Series to be redeemed within a maturity are to be selected by lot or such other manner as the Trustee shall determine in accordance with the Resolutions, except as otherwise described below.

Mandatory Redemption of Senior Series 2001A Bonds and Subordinate Series 2001B Bonds from Unexpended Bond Proceeds. The Senior Series 2001A Bonds and the Subordinate Series 2001B Bonds are subject to redemption prior to maturity by the Corporation at any time, in whole or in part, as described below, at a redemption price equal to 100% of the principal amount of such Bonds or portions thereof to be redeemed, together with accrued interest thereon to the date of redemption, from proceeds of the Senior Series 2001A Bonds or Subordinate Series 2001B Bonds deposited to the Loan Account upon the issuance thereof which have not been applied to finance Student Loans on or before March 1, 2002, unless such date is extended if a Rating Affirmation is obtained.

Optional Redemption of 2001 Bonds. The 2001 Bonds are subject to redemption prior to conversion to a Fixed Rate or maturity, at the option of the Corporation at any time, in whole or in part, as described below at a redemption price equal to 100% of the principal amount of such Bonds or portions thereof to be redeemed, together with accrued interest thereon to the date of redemption.

Selection of 2001 Bonds to be Redeemed. Any 2001 Bonds to be redeemed shall, except as otherwise described below, be selected by the Corporation or by the Trustee as directed by the Corporation by any one of the following means: (i) first, all Senior Bonds, second, all Senior Subordinate Bonds and, subsequently, all Subordinate Bonds of each successive next most senior Class; or (ii) pro rata among all Classes of Bonds Outstanding; or (iii) if neither clause (i) nor (ii) is followed, then in such order as the Corporation shall determine, provided that either the Corporation receives a Rating Affirmation or the Trustee receives a Certificate of the Corporation to the effect that the value of the Loans (valued at par plus accrued interest and accrued special allowance payments, if any) credited to the Loan Account and all cash and Investment Securities held in the Accounts (valued at amortized value as defined for purposes of the General Bond Resolution, plus accrued interest, but excluding amounts irrevocably set aside to pay particular Obligations pursuant to the General Bond Resolution and excluding amounts on deposit in the Rebate Account and the Earnings Account), will not be less than each and all of the following sums, after giving effect to such redemption: (a) at least 106%, of the sum of the principal of and accrued interest on all Outstanding Senior Obligations plus all accrued but unpaid Program Expenses; (b) at least 103% of the sum of the principal of and accrued interest on all Outstanding Senior and Senior Subordinate Obligations plus all accrued but unpaid Program Expenses, and (c) at least 102% of the sum of the principal of and accrued interest on all Outstanding Obligations plus all accrued but unpaid Program Expenses.

Notice of Redemption of 2001 Bonds. The Trustee will give notice of redemption by mailing a copy of the redemption notice by first class mail, postage prepaid, to the registered owners of any 2001 Bonds to be redeemed at the address of such owner appearing on the registration books of the Trustee. Notice of redemption will be given not more than 30 days nor less than 10 days prior to the redemption date. Such notice shall state whether the Trustee then holds sufficient moneys to fund such redemption and whether such redemption is dependent upon the issuance of refunding obligations or the deposit of funds from other sources by the Corporation. Neither failure to give such

notice nor any defect therein will affect the validity of the proceedings for redemption of any 2001 Bond not affected by such failure or defect. While the 2001 Bonds are held by DTC or its nominee notice of redemption shall be given to DTC or its nominee. See "BOOK-ENTRY SYSTEM."

Effect of Redemption. Notice having been given as aforesaid, the 2001 Bonds called for redemption will become due and payable on the Redemption Date at the redemption price, plus accrued interest to the Redemption Date. If, on the Redemption Date, moneys for the redemption of the 2001 Bonds to be redeemed, together with interest to the Redemption Date, are held by the Trustee or any Paying Agent so as to be available therefor on said date, interest on the 2001 Bonds called for redemption will cease to accrue on the Redemption Date.

Acceleration of the 2001 Bonds. Upon the occurrence of certain Events of Default under the Resolution, the 2001 Bonds may be subject to acceleration as described herein. See Appendix B – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS."

The Resolutions provide that nonpayment of the principal of or interest on Senior Subordinate Obligations or Subordinate Obligations occurring while there are any Senior Obligations Outstanding which are not affected by the nonpayment, shall not result in an Event of Default under the Resolutions that would give rise to a right on the part of owners of affected Obligations to accelerate the 2001 Bonds or to exercise any other remedy. The Resolutions provide that only owners of the most senior Class of Outstanding Obligations may exercise any remedy or right of enforcement or consent to any action thereunder in the event of nonpayment of Outstanding Obligations, and requires the consent of all owners of Outstanding Obligations to exercise any right or remedy under the Resolutions for any Event of Default other than nonpayment.

Recycling Provision. The Resolutions permit the Corporation to use revenues received on the Student Loans for the origination or acquisition of Student Loans until July 1, 2003. After such date, no amount may be transferred from the Revenue Account to the Loan Account unless the Corporation receives a Rating Affirmation permitting the Corporation to extend the date.

Registration of Transfer and Exchange

In the event that the Book-Entry System is discontinued, and subject to the procedures for the transfer or exchange of Auction Rate Securities as described under "AUCTION RATE SECURITIES," then upon surrender for transfer or exchange of any 2001 Bond at the corporate trust office of the Trustee, the Corporation will execute and the Trustee will authenticate and deliver in the name of the transferee or transferees, a new 2001 Bond of the same Series and Subseries in exchange for the Senior Series 2001A Bond or the Subordinate Series 2001B Bond being transferred or exchanged, of Authorized Denominations, of like aggregate principal amount and bearing numbers not previously assigned to such 2001 Bonds.

The Trustee will require the payment by any owner of 2001 Bonds requesting exchange or transfer of a sum sufficient to cover any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. Every 2001 Bond presented or surrendered for transfer or exchange must be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Trustee, duly executed, by the owner thereof or his attorney duly authorized in writing, with signature guarantees satisfactory to the Trustee.

The Trustee is not required to transfer any 2001 Bond (i) during a period beginning at the opening of business 15 days before any selection of 2001 Bonds of the same Series for redemption and ending at the close of business on the day of such selection, or (ii) selected for redemption in whole or in part.

BOOK-ENTRY SYSTEM

Beneficial ownership interests in the 2001 Bonds will be available in Book-Entry Form only. Purchases and sales by the Beneficial Owners of Senior Series 2001A Bonds and of Subordinate Series 2001B Bonds can be made in denominations of \$50,000 or any integral multiple thereof. Purchasers of beneficial ownership interests in the 2001 Bonds will not receive certificates representing their interests in the 2001 Bonds purchased and will not be Holders under the Resolution, except as described below.

The Depository Trust Company (“DTC”), New York, New York, will act as Security Depository for the 2001 Bonds. The 2001 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each Series of the 2001 Bonds, each in the aggregate amount and of such maturity as set forth on the cover page hereof, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Agent Members”) deposit with DTC. DTC also facilitates the settlement among Agent Members of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Agent Members’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Agent Members include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the “Direct Agent Members”). DTC is owned by a number of its Direct Agent Members and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Agent Member, either directly or indirectly (“Indirect Agent Members”). The Rules applicable to DTC and its Direct and Indirect Agent Members are on file with the Securities and Exchange Commission.

Purchases of 2001 Bonds under the DTC system must be made by or through Direct Agent Members, which will receive a credit for the 2001 Bonds on DTC’s records. The ownership interest of each actual purchaser of a beneficial interest in the 2001 Bonds (each a “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Agent Members’ records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Agent Member through which the Beneficial Owner entered into the transactions. Transfers of ownership interests in the 2001 Bonds are to be accomplished by entries made on the books of Direct and Indirect Agent Members acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2001 Bonds, except in the event that use of the book-entry system for the 2001 Bonds of the applicable Series is discontinued.

To facilitate subsequent transfers, all 2001 Bonds deposited by Direct Agent Members with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2001 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2001 Bonds. DTC’s records reflect only the identity of the Direct Agent Members to whose accounts such 2001 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Agent Members will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Agent Members, by Direct Agent Members to Indirect Agent Members, and by Direct Agent Members and Indirect Agent Members to Beneficial Owners shall be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the 2001 Bonds within a single maturity and Series are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Agent Member in such issue to be redeemed.

Neither DTC nor Cede & Co. (not such other DTC nominee) will consent or vote with respect to the 2001 Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Corporation or Trustee, as appropriate, as soon as possible after the record date. The omnibus proxy assigns Cede & Co.’s consenting or voting rights to those Direct Agent Members to whose accounts the 2001 Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal, redemption premium, if any, and interest payments on the 2001 Bonds will be made to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC). Payments by Agent Members to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Agent Member and not of DTC, the Paying Agent, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation through the Trustee, disbursement of such payments to Direct Agent Members shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Agent Members.

DTC may discontinue providing its services as Securities Depository with respect to the 2001 Bonds of any Series at any time by giving reasonable notice to the Corporation and the Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, Bond certificates are required to be printed and delivered.

The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Securities Depository). In that event, Bond certificates will be printed and delivered.

The preceding information in this section “BOOK-ENTRY SYSTEM” was provided by DTC for inclusion herein, and has not been independently verified by the Corporation. No representation is made by the Corporation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Neither the Corporation nor the Trustee shall have any responsibility or obligation to any DTC Agent Member, any Beneficial Owner or other persons claiming a beneficial ownership interest in the 2001 Bonds under or through DTC or any DTC Agent Member, with respect to (i) the accuracy of any records maintained by DTC or any DTC Agent Member with respect to the beneficial ownership interest in the 2001 Bonds; (ii) the payment by DTC or any DTC Agent Member of any amount in respect of the principal of and premium, if any, or interest on the 2001 Bonds to any Beneficial Owner or other person for the 2001 Bonds; or (iii) the delivery to any Beneficial Owner of the 2001 Bonds, or any other person, of any notice which is permitted or required to be given to owners under the Resolution. Neither the Corporation nor the Trustee shall have any responsibility with respect to obtaining consents from anyone other than the registered owners.

No assurance can be given by the Corporation or the Trustee that DTC will distribute to the Agent Members or the Agent Members will distribute to the Beneficial Owners: (i) payment of debt service on the 2001 Bonds paid to DTC or its nominee, as the registered owner; or (ii) any redemption or other notices, or that DTC or the DTC Agent Members will serve or act on a timely basis or in a manner described in this Official Statement.

AUCTION RATE SECURITIES

General Terms

The 2001 Bonds are issued as Auction Rate Securities, shall be dated the date of initial delivery thereof and shall mature on the dates shown on the cover of this Official Statement. Any Series of 2001 Bonds may be converted to bear interest at a Variable Rate or a Fixed Rate, as more fully described in the Series Resolutions. Certain capitalized terms used herein with respect to the 2001 Bonds are defined herein or in other parts of this Official Statement, including the Appendices hereto.

The 2001 Bonds may be issued in Authorized Denominations or any integral multiple thereof (an “Authorized Denomination”), and, after the Initial Period for each 2001 Bond (as described herein under “AUCTION RATE SECURITIES – Interest Rate on the Senior Series 2001A Bonds,” “– Interest Rate on the Subordinate Series 2001B Bonds”), will accrue interest at the Auction Rate determined in the manner described herein under “AUCTION RATE SECURITIES – Interest Rate on the Senior Series 2001A Bonds,” “– Interest Rate on the Subordinate Series 2001B Bonds,” and in Appendix E-1 – “AUCTION PROCEDURES FOR THE SENIOR SERIES 2001A BONDS,” and Appendix E-2 – “AUCTION PROCEDURES FOR THE SUBORDINATE SERIES

2001B BONDS.” The 2001 Bonds are scheduled to mature on the dates shown on the cover of this Official Statement.

Interest on each Series of the Senior Series 2001A Bonds will be payable on the first Business Day following the expiration of each related Auction Period (each an “ARS Distribution Date”). Interest on the Subordinate Series 2001B Bonds initially will be payable on November 1, 2001 and on each May 1 and November 1 thereafter (subject to change as described herein) (each an “Interest Payment Date”) until the earlier of maturity or redemption. Interest on each Series of the 2001 Bonds will be computed on the basis of a 360-day year and actual number of days elapsed during the time such 2001 Bonds bear interest at an Auction Rate.

Auction Participants

Existing Holders and Potential Holders. Participants in each Auction will include: (i) “Existing Holders,” which shall mean (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a person who is a Broker-Dealer listed in the Existing Holder registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction, and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a person who is a Beneficial Owner of Auction Rate Securities; and (ii) “Potential Holders,” which shall mean any person, (including any Existing Holder that is (a) a Broker-Dealer when dealing with the Auction Agent and (b) a potential Beneficial Owner when dealing with a Broker-Dealer), who may be interested in acquiring Auction Rate Securities (or, in the case of an Existing Holder, an additional principal amount of Auction Rate Securities).

By purchasing Auction Rate Securities, whether in an Auction or otherwise, each prospective purchaser of Auction Rate Securities or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms set forth in Appendix E-1 – “AUCTION PROCEDURES FOR THE SENIOR SERIES 2001A BONDS,” and Appendix E-2 – “AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS” hereto; (ii) so long as the beneficial ownership of the Auction Rate Securities is maintained in Book-Entry Form by DTC, to sell, transfer or otherwise dispose of Auction Rate Securities only pursuant to a Bid or a Sell Order (each as defined in Appendix E-1 – “AUCTION PROCEDURES FOR THE SENIOR SERIES 2001A BONDS,” and Appendix E-2 – “AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS”) in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of Auction Rate Securities so transferred, its Agent Member or its Broker-Dealer advises the Auction Agent of such transfer; and (iii) to have its beneficial ownership of Auction Rate Securities maintained at all times in Book-Entry Form by the Securities Depository for the account of its Agent Member of DTC, which in turn will maintain records of such beneficial ownership, and to authorize such Agent Member to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

Auction Agent. Bankers Trust Company, New York, New York (“Bankers Trust Company”) is appointed as the initial Auction Agent for the Auction Rate Securities. The Trustee is directed to enter into the Initial Auction Agent Agreement with Bankers Trust Company. Any substitute Auction Agent shall be: (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, the City of New York, and having a combined capital stock, surplus and undivided profits of at least \$50,000,000; or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Resolutions and under the Auction Agent Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Resolutions by giving at least 90 days’ written notice to the Corporation, the Trustee and the Market Agent. The Auction Agent may be removed at any time by the Trustee upon written direction of an Authorized Officer of the Corporation or the Registered Owners of at least 66-2/3% of the aggregate principal amount of the Auction Rate Securities then Outstanding, and if by the Registered Owners, by an instrument signed by such Registered Owners or their attorneys and filed with the Auction Agent, the Corporation, the Trustee and the Market Agent upon at least 90 days’ notice; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agent Agreement shall be entered into with a Substitute Auction Agent. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Corporation acting in lieu of the Trustee.

If the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Trustee at the direction of an Authorized Officer of the Corporation shall use its best efforts to appoint a Substitute Auction Agent.

The Auction Agent is acting as agent for the Corporation in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgment.

Broker-Dealer. Existing Holders and Potential Holders may participate in Auctions only by submitting orders (in the manner described below) through a “Broker-Dealer,” including Salomon Smith Barney Inc. as the sole initial Broker-Dealer, any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which: (i) is an “Agent Member” (i.e., a member of, or participant in, DTC or any successor securities depository) or an affiliate of an Agent Member; (ii) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld); and (iii) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described below, as from time to time amended or supplemented.

Market Agent. The “Market Agent,” initially Salomon Smith Barney Inc., will enter into separate Market Agent Agreements with the Corporation to perform such functions as required under the Resolutions, each with respect to: (i) the Senior Series 2001A Bonds; and (ii) the Subordinate Series 2001B Bonds. Under each Market Agent Agreement, and in connection with the Auction Rate Securities, the Market Agent shall act solely as agent of the Corporation and shall not assume any obligation or relationship of agency or trust for or with any of the Beneficial Owners.

Interest Rate on the Senior Series 2001A Bonds

The Interest Rate during the Initial Period for the Senior Series 2001A-1 Bonds (which will be the period commencing on the Issue Date through and including August 22, 2001) will be determined on or about July 26, 2001. The Interest Rate during the Initial Period for the Senior Series 2001A-2 Bonds (which will be the period commencing on the Issue Date through and including August 29, 2001) will be determined on or about July 26, 2001. Thereafter, until a Conversion Date, an Auction Period Adjustment or an Auction Period Conversion Date, if any, each of the Senior Series 2001A-1 Bonds and the Senior Series 2001A-2 Bonds will bear interest at the Auction Rate (subject to the Net Loan Rate limitation described below under “AUCTION RATE SECURITIES – Carry-over Amount on the Senior Series 2001A Bonds”), but in no event greater than the lesser of: (i) 15% per annum; or (ii) the highest rate then permitted in conformance with applicable Commonwealth law, as determined by the Auction Agent in accordance with the Auction Procedures on each Rate Adjustment Date for each Auction Period, based on a 28-day Auction Period generally beginning on Thursday and ending on the fourth following Wednesday, subject to adjustment as described below.

The Interest Rate to be borne by the Senior Series 2001A Bonds for each Auction Period after the Initial Period, and until Conversion, if any, will be separately determined for the Senior Series 2001A-1 Bonds and the Senior Series 2001A-2 Bonds on each applicable Rate Determination Date in accordance with the Auction Procedures described in Appendix E-1 – “AUCTION PROCEDURES FOR THE SENIOR SERIES 2001A BONDS.” Each such Auction Period will commence on and include the Initial Rate Adjustment Date and terminate on and include the day preceding the next Rate Adjustment Date, subject to adjustment as described below in the event that there are fewer than three Business Days in any week during which such Auction Period would otherwise be scheduled to expire. As discussed above, the Interest Rate on each Series of the Senior Series 2001A Bonds for each Auction Period will be the Auction Rate (subject to the Net Loan Rate limitation described below under “AUCTION RATE SECURITIES – Carry-over Amount on the Senior Series 2001A Bonds”) for such Auction Period as determined in accordance with the Auction Procedures described in Appendix E-1 – “AUCTION PROCEDURES FOR THE SENIOR SERIES 2001A BONDS,” but in no event greater than the lesser of: (i) 15% per annum; or (ii) the highest rate then permitted in conformance with applicable Commonwealth law; provided that if on any Rate Determination Date, an Auction is not held for any reason, then the Interest Rate on such Senior Series 2001A Bonds for the next succeeding Auction Period

will be the Net Loan Rate, but in no event greater than the lesser of: (i) 15% per annum; or (ii) the highest rate then permitted in conformance with applicable Commonwealth law.

At the option of the Corporation, the length of the Auction Period for the Senior Series 2001A-1 Bonds or the Senior Series 2001A-2 Bonds may be adjusted pursuant to an Auction Period Adjustment to an Auction Period of not less than 7 nor more than 91 days in length. See “AUCTION RATE SECURITIES – Auction Period Adjustment for the Senior Series 2001A Bonds” and Appendix E-1 – “AUCTION PROCEDURES FOR THE SENIOR SERIES 2001A BONDS – Changes in Auction Terms.” In addition, at the option of the Corporation, the length of one or more Auction Periods for the Senior Series 2001A-1 Bonds or the Senior Series 2001A-2 Bonds is subject to conversion on any Rate Adjustment Date: (i) from an Auction Period between seven (7) and ninety-one (91) days, inclusive (a “Short Auction Period”), to an Auction Period between ninety-two (92) days and the applicable Maturity Date, inclusive (a “Long Auction Period”); (ii) from a Long Auction Period to a Short Auction Period; or (iii) from a Long Auction Period to another Long Auction period that is more than 91 days shorter or longer than the immediately preceding Long Auction Period (each an “Auction Period Conversion”). Upon any Auction Period Conversion of Senior Series 2001A Bonds, such Senior Series 2001A Bonds are subject to mandatory tender. See “AUCTION RATE SECURITIES – Conversion and Auction Period Conversion of and Mandatory Tender of the Senior Series 2001A Bonds.” The Market Agent, with the consent of the Corporation, may change the Rate Determination Date for any Senior Series 2001A Bonds to conform with prevailing market practice. See Appendix E-1 – “AUCTION PROCEDURES FOR THE SENIOR SERIES 2001A BONDS – Changes in Auction Terms – *Changes in the Rate Determination Date.*”

Notwithstanding the foregoing:

(A) if the ownership of Senior Series 2001A Bonds is no longer maintained in Book-Entry Form by the Securities Depository, the Interest Rate on such Senior Series 2001A Bonds for any Interest Period commencing after the delivery of certificates representing such Senior Series 2001A Bonds will equal the lesser of the Maximum Auction Rate or the Net Loan Rate on the Business Day immediately preceding the first day of the subsequent Interest Period; or

(B) if a Payment Default has occurred, the Interest Rate on the Senior Series 2001A Bonds for the Interest Period commencing on or immediately after such Payment Default and for each Interest Period thereafter, to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured in accordance with the Resolutions, will equal the Non-Payment Rate on the first day of each such Interest Period; or

(C) if a proposed Conversion or an Auction Period Conversion has failed, as described below under the caption “AUCTION RATE SECURITIES – Conversion and Auction Period Conversion of and Mandatory Tender of the Senior Series 2001A Bonds,” the Interest Rate on the Senior Series 2001A Bonds subject to the failed Conversion or Auction Period Conversion will be equal to the lesser of the Maximum Auction Rate and the Net Loan Rate as of the date of the failed Conversion or Auction Period Conversion for the Interest Period commencing on such date, and the length of the Auction Period commencing upon the failed Conversion Date or Auction Period Conversion Date will be the same as was in effect immediately preceding such failed Conversion or Auction Period Conversion, as applicable.

Except in the event of a Payment Default, the Interest Rate on the Senior Series 2001A Bonds shall never exceed the Net Loan Rate. In no event shall the Interest Rate on the Senior Series 2001A Bonds exceed the lesser of: (i) 15% per annum; or (ii) the highest rate then permitted in conformance with applicable Commonwealth law.

The Auction Agent will promptly give written notice to the Trustee and the Corporation of the Interest Rate (unless the Interest Rate is the Non-Payment Rate, in which case the Trustee will determine the Non-Payment Rate and give written notice thereof to the Corporation) and the Auction Rate when such rate is not the Interest Rate applicable to the Senior Series 2001A Bonds. The Trustee will notify the Holders of Senior Series 2001A Bonds of the Interest Rate applicable to the Senior Series 2001A Bonds for each Auction Period on the second Business Day of such Auction Period.

In the event that there are fewer than three Business Days in any week during which the Auction Period would otherwise be scheduled to expire, the expiration date and the ARS Distribution Date for such Auction Period then in

effect, and the Rate Determination Date and commencement date for the immediately following Auction Period for the Senior Series 2001A Bonds may be adjusted to fall on such dates as the Market Agent, with the consent of the Corporation, may determine to be appropriate under such circumstances. The Market Agent will promptly notify the Trustee and the Auction Agent in writing of any such determination. The Trustee, upon receipt of such notice, will immediately give written notification of such determination to the Holders of the Senior Series 2001A Bonds.

In the event that the Auction Agent no longer determines, or fails to determine, when required, the Interest Rate with respect to the Senior Series 2001A Bonds, or, if for any reason such manner of determination shall be held to be invalid or unenforceable, the Interest Rate for the next succeeding Auction Period for the Senior Series 2001A Bonds will be the Net Loan Rate as determined by the Market Agent for such Auction Period, and if the Market Agent fails or refuses to determine the Net Loan Rate, the Net Loan Rate will be determined by a securities dealer appointed by the Corporation and capable, in the reasonable judgment of the Corporation, of making such a determination in accordance with the provisions of the Resolutions, and written notice of such determination will be given by such securities dealer to the Trustee.

Carry-over Amount on the Senior Series 2001A Bonds

The Interest Rate on each of the Senior Series 2001A-1 Bonds and the Senior Series 2001A-2 Bonds for any Interest Period is, in certain circumstances, limited to the Net Loan Rate for such Interest Period. Prior to each calendar quarter, the Market Agent shall calculate the Net Loan Rate for the Senior Series 2001A Bonds for each Auction. The excess of the amount of interest that would have accrued on such Senior Series 2001A Bonds at a rate equal to the respective Interest Rate described above over the amount of interest on such Senior Series 2001A Bonds actually accrued at the Net Loan Rate, will accrue as the Carry-over Amount with respect to such Senior Series 2001A Bonds. The Carry-over Amount on any such Senior Series 2001A Bonds subject to the Net Loan Rate limitation, including interest compounded thereon on each Rate Adjustment Date, will bear interest, calculated on each Rate Adjustment Date, at the One-month LIBOR Rate until paid. Such Carry-over Amount and the accrued interest thereon will be paid on the dates and in the priority set forth in Appendix B – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – Funds and Accounts – *Collection Fund*.” Carry-over Amount will continue to be so payable notwithstanding that the principal amount of the applicable Senior Series 2001A Bonds has been reduced to zero; provided, however, that all Carry-over Amount with respect to the Senior Series 2001A Bonds shall be cancelled at such time as (i) no Bonds are then Outstanding and (ii) the balances in the Funds and Accounts have been reduced to zero.

Other than references to the Senior Series 2001A Bonds bearing interest at a rate that does not exceed the highest lawful rate, any reference to “principal” or “interest” herein shall not include within the meaning of such words Carry-over Amount or any interest accrued on any Carry-over Amount. All references to Carry-over Amount shall include the interest compounded thereon, which compounded interest shall bear interest at the rates and be calculated in the manner as for the original Carry-over Amount. All references to the payment of Carry-over Amount shall, unless otherwise specified, include payment of accrued interest thereon. Such Carry-over Amount shall be separately calculated for each of the Senior Series 2001A-1 Bonds and the Senior Series 2001A-2 Bonds by the Auction Agent or the Trustee during such Interest Period in sufficient time for the Trustee to give notice to each Registered Owner of the Senior Series 2001A-1 Bonds and the Senior Series 2001A-2 Bonds of such Carry-over Amount as required in the next succeeding sentence. On the ARS Distribution Date of a Senior Series 2001A Bond for an Interest Period with respect to which a Carry-over Amount has been calculated, the Trustee shall give written notice to each Registered Owner of such Senior Series 2001A Bonds of the Carry-over Amount applicable to each such Senior Series 2001A Bond of such Registered Owner, which written notice may either accompany the payment of interest by check made to each Registered Owner on such ARS Distribution Date or otherwise be mailed on such ARS Distribution Date by first class mail, postage prepaid, to each Registered Owner at such Registered Owner’s address as it appears on the Bond registration books maintained by the Trustee. Such notice shall state, in addition to the Carry-over Amount, that, unless and until all Bonds have been paid or are deemed no longer Outstanding under the Resolutions and no funds remain in the Trust Estate (after which no Carry-over Amount, or interest accrued thereon, shall be paid with respect to such Senior Series 2001A Bond), (i) the Carry-over Amount with respect to such Senior Series 2001A Bond (and interest accrued thereon from such ARS Distribution Date until paid calculated at the applicable Carryover Rate, which shall be specified in such notice) shall be paid by the Trustee in part or in whole, on the first occurring ARS Distribution Date for such Senior Series 2001A Bond and on each succeeding ARS Distribution Date until paid, but solely to the extent that (a) during an Interest Period which follows

the Interest Period in which such Carry-over Amount accrued the amount of interest that would be payable on such Senior Series 2001A Bond at the Net Loan Rate exceeds the amount of interest that would otherwise be payable on such Senior Series 2001A Bond and (b) moneys are available pursuant to the terms of the Resolutions on any such ARS Distribution Date in an amount sufficient to pay all or a portion of the amount of such excess calculated pursuant to the preceding clause (a), so long as, subsequent to such payments, the sum of the value of: (y) the Loans (valued at par plus accrued interest and accrued special allowance payments, if any) credited to the Loan Account; and (z) all cash and Investment Securities held in the Accounts (valued as set forth in the General Resolution, plus accrued interest, but excluding amounts irrevocably set aside to pay particular Obligations pursuant to the General Resolution and excluding amounts on deposit in the Rebate Account and the Earnings Account) shall be at least equal to 101% of the sum of principal of and accrued interest on the Outstanding Obligations. The right to receive the Carry-over Amount payable with respect to any Senior Series 2001A Bonds may not be assigned or transferred apart from such Senior Series 2001A Bond, and the Carry-over Amount due on any ARS Distribution Date with respect to any Senior Series 2001A Bond shall be payable solely to the Registered Owner of such Senior Series 2001A Bond on the applicable Record Date for such ARS Distribution Date.

The Carry-over Amount with respect to a Senior Series 2001A Bond shall be paid by the Trustee in part or in whole at the times and to the extent recited in such notice, as specified above. The Trustee shall calculate whether money is available under the Resolutions as described in Appendix B – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – Funds and Accounts – *Collection Fund*.” In addition, any Carry-over Amount (and any interest accrued thereon) on any Senior Series 2001A Bond which is due and payable on an ARS Distribution Date on which the Senior Series 2001A Bond is to be mandatorily redeemed or on which it will cease to be Outstanding shall be paid to the Registered Owner thereof on said ARS Distribution Date, but solely to the extent that moneys are available therefor in accordance with the provisions of the Resolutions. To the extent that any portion of the Carry-over Amount remains unpaid after payment of a portion thereof, such unpaid portion of the Carry-over Amount shall be paid in whole or in part until fully paid by the Trustee on the next occurring ARS Distribution Date or Dates, as necessary, for a subsequent Interest Period or Periods, if and to the extent that the conditions described under this heading are satisfied. On any ARS Distribution Date on which the Trustee pays only a portion of the Carry-over Amount on a Senior Series 2001A Bond the Trustee shall give written notice in the manner set forth in the immediately preceding paragraph to the Registered Owner of such Senior Series 2001A Bond receiving such partial payment of the Carry-over Amount remaining unpaid on such Senior Series 2001A Bond.

THE RATING ON THE SENIOR SERIES 2001A BONDS DOES NOT ADDRESS THE LIKELIHOOD OF THE PAYMENT OF ANY CARRY-OVER AMOUNT THAT MAY ACCRUE ON THE SENIOR SERIES 2001A BONDS.

Auction Period Adjustment for the Senior Series 2001A Bonds

Until Conversion from an Auction Rate to a Variable Rate or a Fixed Rate (a “Conversion”), if any, the Corporation may, from time to time, change the length of one or more Auction Periods for the Senior Series 2001A-1 Bonds or the Senior Series 2001A-2 Bonds in order to conform with then current market practice or accommodate other economic or financial factors that may affect or be relevant to the length of the Auction Period or the Auction Rate (as hereinafter described, an “Auction Period Adjustment”); provided that the Corporation will have received a Favorable Opinion. An Auction Period Adjustment may be made within a Short Auction Period or, if not resulting in an Auction Period which is more than 91 days shorter than the immediately preceding Auction Period, a Long Auction Period. The Corporation will initiate an Auction Period Adjustment by giving written notice thereof to the Trustee, the Auction Agent, the Market Agent, the Rating Agency and the Securities Depository at least 10 days prior to the Rate Determination Date for such Auction Period. See Appendix E-1 – “AUCTION PROCEDURES FOR THE SENIOR SERIES 2001A BONDS – Change in Auction Terms – *Change in Auction Period or Periods*.”

Conversion and Auction Period Conversion of and Mandatory Tender of the Senior Series 2001A Bonds

Conversion. The Corporation may, at its option, Convert the Interest Rate on any Series of the Senior Series 2001A Bonds on any Rate Adjustment Date (a “Conversion Date”) from an Auction Rate to a Variable Rate or a Fixed Rate; provided it will have received a Rating Affirmation from each Rating Agency and a Favorable Opinion. Terms relating to the Senior Series 2001A Bonds bearing interest at a Variable Rate or a Fixed Rate are not described in this

Official Statement. All Senior Series 2001A Bonds subject to Conversion are subject to mandatory tender to the Trustee on the Conversion Date at the purchase price of par plus accrued interest.

Auction Period Conversion. The Corporation may, from time to time, effect an Auction Period Conversion for the Senior Series 2001A Bonds; provided it will have received a Rating Affirmation from each Rating Agency and a Favorable Opinion. All Senior Series 2001A Bonds subject to Auction Period Conversion are subject to mandatory tender to the Trustee on the Auction Period Conversion Date at the purchase price of par plus accrued interest.

The Holders of Senior Series 2001A Bonds that are subject to mandatory tender do not have the right to elect to retain such Senior Series 2001A Bonds. If, however, any Senior Series 2001A Bonds so tendered are not remarketed, or the Trustee does not receive the purchase price for the Senior Series 2001A Bonds subject to the Conversion or Auction Period Conversion, none of the Senior Series 2001A Bonds tendered will be converted and the Senior Series 2001A Bonds will bear interest at the lesser of the Net Loan Rate or the Maximum Auction Rate, but in no event greater than the lesser of: (i) 15% per annum; or (ii) the highest rate then permitted in conformance with applicable Commonwealth law, as of the date of the failed Conversion or Auction Period Conversion, as applicable, for the Interest Period commencing on such date, and the length of the Auction Period will remain the same.

Interest Rate on the Subordinate Series 2001B Bonds

The Interest Rate during the Initial Period for the Subordinate Series 2001B Bonds (which will be the period commencing on the Issue Date through and including September 5, 2001) will be determined on or about July 26, 2001. Thereafter, until a Conversion Date, an Auction Period Adjustment or an Auction Period Conversion Date, if any, as described in Appendix E-2 – “AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS,” each maturity of the Subordinate Series 2001B Bonds will bear interest at the Auction Rate resulting from implementation of the Auction Procedures described in Appendix E-2 – “AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS,” based on a 35-day Auction Period, but in no event greater than the lesser of: (i) 15% per annum; or (ii) the highest rate then permitted in conformance with applicable Commonwealth law, as determined by the Auction Agent in conformance with the Auction Procedures on each Rate Adjustment Date for each Auction Period, based on a 35-day Auction Period generally beginning on Thursday and ending on the fifth following Wednesday, subject to adjustment as described below.

Each Auction Period will commence on and include the first Business Day following the expiration of the immediately preceding Auction Period and terminate on and include the day immediately preceding the next Rate Adjustment Date, which, it is expected, generally will be the fifth Thursday following the preceding Rate Adjustment Date for the Subordinate Series 2001B Bonds, but subject to adjustment as described in Appendix E-2 – “AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS – Changes in Auction Terms.” The Auction Rate for the Subordinate Series 2001B Bonds will be determined in accordance with the Auction Procedures described in Appendix E-2 – “AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS,” provided that:

(A) If a notice of an adjustment in the percentages used to determine the Maximum Rate, the All-Hold Rate and the Non-Payment Rate has been given by the Market Agent because of a failure to satisfy either of the conditions set forth in Appendix E-2 – “AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS – Auction Procedures – *Calculation of Maximum Rate, All-Hold Rate and Non-Payment Rate,*” then an Auction will not be held on the Rate Determination Date immediately preceding the next succeeding Interest Period, and the Interest Rate on the Subordinate Series 2001B Bonds for such next succeeding Interest Period will be the Maximum Rate on such Rate Determination Date; or

(B) If, on any Rate Determination Date, an Auction is not held for any reason, then the Interest Rate on the Subordinate Series 2001B Bonds for the next succeeding Interest Period will be the Maximum Rate on such Rate Determination Date.

At the option of the Corporation, the length of the Auction Period for the Subordinate Series 2001B Bonds may be adjusted pursuant to an Auction Period Adjustment to an Auction Period of not less than 7 nor more than 91 days in length; provided that the Corporation will have received a Rating Affirmation from each Rating Agency and a

Favorable Opinion. See “AUCTION RATE SECURITIES – Auction Period Adjustment for the Subordinate Series 2001B Bonds” and Appendix E-2 – “AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS – Changes in Auction Terms.” In addition, at the option of the Corporation, the length of one or more Auction Periods for the Subordinate Series 2001B Bonds is subject to a conversion on any Rate Adjustment Date: (i) from a Short Auction Period to a Long Auction Period; (ii) from a Long Auction Period to a Short Auction Period; or (iii) from a Long Auction Period to another Long Auction Period that is more than 91 days shorter or longer than the immediately preceding Long Auction Period (each an “Auction Period Conversion”). Upon any Auction Period Conversion of the Subordinate Series 2001B Bonds, the Subordinate Series 2001B Bonds are subject to mandatory tender. See “AUCTION RATE SECURITIES – Conversion and Auction Period Conversion of and Mandatory Tender of the Subordinate Series 2001B Bonds.” The Market Agent, with the consent of the Corporation, may change the Rate Determination Date for any Subordinate Series 2001B Bonds to conform with prevailing market practice. See Appendix E-2 – “AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS – Changes in Auction Terms – *Changes in the Rate Determination Date.*”

Notwithstanding the foregoing:

(A) if the ownership of any Subordinate Series 2001B Bonds is no longer maintained in Book-Entry Form by the Securities Depository, the Interest Rate on such Subordinate Series 2001B Bonds for any Interest Period commencing after the delivery of certificates representing such Subordinate Series 2001B Bonds will be the Maximum Rate on the Business Day immediately preceding the first day of such subsequent Interest Period; or

(B) if a Payment Default shall have occurred, the Interest Rate on such Subordinate Series 2001B Bonds for the Interest Period commencing on or immediately after such Payment Default and for each Interest Period thereafter, to and including the Interest Period, if any, during which, or commencing less than two Business Days after such Payment Default is cured in accordance with the Resolutions, will be the Non-Payment Rate on the first day of each such Interest Period; or

(C) if a proposed Conversion or Auction Period Conversion has failed, as described below under the caption “AUCTION RATE SECURITIES – Conversion and Auction Period Conversion of and Mandatory Tender of the Subordinate Series 2001B Bonds,” the Interest Rate on such Subordinate Series 2001B Bonds will be the Maximum Rate as of the failed Conversion Date or Auction Period Conversion Date, as applicable, for the Interest Period commencing on such date, and the length of the Auction Period commencing upon the failed Conversion Date or Auction Period Conversion Date will be the same as was in effect immediately preceding such failed Conversion Date or Auction Period Conversion Date, as applicable; or

(D) the Auction Rate for an Auction Period that commences on an Auction Period Conversion Date will be equal to the lesser of (i) the Interest Rate necessary to enable the Remarketing Agent to sell all of such Subordinate Series 2001B Bonds at par plus accrued interest to the Auction Period Conversion Date or (ii) the Maximum Rate as of the Auction Period Conversion Date.

In no event shall the Interest Rate on the Subordinate Series 2001B Bonds exceed the lesser of: (i) 15% per annum; or (ii) the highest rate then permitted in conformance with applicable Commonwealth law.

The Auction Agent will promptly give written notice to the Trustee and the Corporation of the Auction Rate for the Subordinate Series 2001B Bonds (unless the Auction Rate is the Non-Payment Rate, in which case the Market Agent will determine the Non-Payment Rate and give written notice thereof to the Corporation). The Trustee will notify the Holders of the Subordinate Series 2001B Bonds of the Auction Rate for each Auction Period on the second Business Day of such Auction Period.

In the event that the Auction Agent no longer determines, or fails to determine, when required, the Interest Rate for the Subordinate Series 2001B Bonds, or if for any reason such manner of determination shall be held to be invalid or unenforceable, the Interest Rate for the next succeeding Auction Period will be the Maximum Rate.

Auction Period Adjustment for the Subordinate Series 2001B Bonds

Until Conversion from an Auction Rate to a Variable Rate or a Fixed Rate (a “Conversion”), if any, the Corporation may, from time to time, change the length of one or more Auction Periods for the Subordinate Series 2001B Bonds in order to conform with then current market practice or accommodate other economic or financial factors that may affect or be relevant to the length of the Auction Period or the Auction Rate (as hereinafter described, an “Auction Period Adjustment”); provided that the Corporation will have received a Favorable Opinion. An Auction Period Adjustment may be made within a Short Auction Period or a Long Auction Period. The Corporation will initiate an Auction Period Adjustment by giving written notice thereof to the Trustee, the Auction Agent, the Market Agent, the Rating Agency and the Securities Depository at least 10 days prior to the Rate Determination Date for such Auction Period. See Appendix E-2 – “AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS – Changes in Auction Terms – *Changes in Auction Period or Periods.*”

Conversion and Auction Period Conversion of and Mandatory Tender of the Subordinate Series 2001B Bonds

Conversion. The Corporation may, at its option, Convert the Interest Rate on any Subordinate Series 2001B Bonds on any Rate Adjustment Date (a “Conversion Date”) from an Auction Rate to a Variable Rate or a Fixed Rate; provided it will have received a Rating Affirmation from each Rating Agency and a Favorable Opinion. Terms relating to the Subordinate Series 2001B Bonds bearing interest at a Variable Rate or a Fixed Rate are not described in this Official Statement. All Subordinate Series 2001B Bonds subject to Conversion are subject to mandatory tender to the Trustee on the Conversion Date at the purchase price of par plus accrued interest.

Auction Period Conversion. The Corporation may, from time to time, effect an Auction Period Conversion for the Subordinate Series 2001B Bonds; provided that the Corporation will have received a Favorable Opinion. All Subordinate Series 2001B Bonds subject to Auction Period Conversion are subject to mandatory tender to the Trustee on the Auction Period Conversion Date at the purchase price of par plus accrued interest.

The Holders of Senior Series 2001B Bonds that are subject to mandatory tender do not have the right to elect to retain such Subordinate Series 2001B Bonds. In the event of a failed Conversion or Auction Period Conversion, the Interest Rate for the Auction Period for which the proposed Auction Period Conversion was to have been effective will be the Maximum Rate, but in no event greater than the lesser of: (i) 15% per annum; or (ii) the highest rate then permitted in conformance with Commonwealth law, as of the date of the failed Conversion or Auction Period Conversion, as applicable, for the Interest Period commencing on such date, and the length of the Auction Period will remain the same.

THE CORPORATION

The General Assembly of the Commonwealth established the Corporation in 1978 to provide a program of financing, making and purchasing insured student loans in the Commonwealth.

Governance and Functions

The Corporation is an independent *de jure* municipal corporation and political subdivision of the Commonwealth. The Corporation is authorized by the Act: (a) to make, purchase and sell, and to participate in the making, purchasing and selling of insured student loans; (b) to collect and pay reasonable fees and charges in connection with its making, purchasing, selling and servicing of insured student loans; (c) to procure insurance in respect of all insured student loans made or purchased by it; (d) to make, execute, and effectuate agreements with any federal or state agency, person, or entity necessary to accomplish its corporate purposes; (e) to accept and comply with the conditions of any appropriations, loans, grants, and other aid to the Corporation; (f) to invest its funds not required for immediate disbursement; (g) to issue its notes and bonds for the purpose of carrying out its corporate powers and duties; and (h) to service and collect educational loans for other lenders, holders and educational institutions.

The term “insured student loans” is currently defined for purposes of the Act to include loans to students who are qualified under the federal Higher Education Act of 1965, as amended, on which the payment of principal

and interest is at least ninety-five percent insured by a guaranty agency and reinsured by the Secretary in accordance with the Higher Education Act or at least ninety-five percent insured as to principal amount by the federal government under the Higher Education Act or the Health Professions Educational Assistance Act of 1976, as amended.

The Corporation is governed by its Board of Directors, which may officially act by a majority of its members. The Board of Directors consists of eleven members, of whom eight are appointed by the Governor from the general public residing in the Commonwealth to serve a term of four years each and three serve *ex officio* by reason of their positions as Chairman of the Council on Postsecondary Education of the Commonwealth, Secretary of the Finance and Administration Cabinet of the Commonwealth, and Chairman of the Board of Directors of KHEAA. The Board of Directors elects from its membership a Chairman and Secretary-Treasurer.

The Corporation's current Chairman, Secretary-Treasurer and other directors are as follows:

Board of Directors of the Corporation

<u>Name of Director</u>	<u>Principal Occupation</u>
Joey B. Bailey	Executive Vice President, Chief Financial Officer and Treasurer Presbyterian Church (U.S.A.) Louisville, Kentucky
Phillip D. Bond	Vice President, Finance and Administration Metro United Way Louisville, Kentucky
Austin B. Carroll Chairman	General Manager Hopkinsville Electric System Hopkinsville, Kentucky
Donna C. Grafton	Homemaker and Civic Leader Louisville, Kentucky
Betty Young Farris	Student Advocate and Retired School Administrator Bowling Green Independent Schools Bowling Green, Kentucky
Shirley A. Huelsmann	Homemaker and Civic Leader Fort Mitchell, Kentucky
Jim A. Jackson Secretary-Treasurer	Director, Division of Management Assistance Department of Education Commonwealth of Kentucky Frankfort, Kentucky
Bobbie D. Powell	Labor Representative American Federation of State, County and Municipal Employees Louisville, Kentucky
T. Kevin Flanery (<i>ex officio</i>)	Secretary, Finance and Administration Cabinet, Commonwealth of Kentucky Frankfort, Kentucky

Mary Jo Young (*ex officio*)

Civic Leader
Elizabethtown, Kentucky

Charles Whitehead (*ex officio*)

President
Ashland Inc. Foundation
Covington, Kentucky

The Corporation's bylaws provide that officers of its Board of Directors serve until replaced.

The Corporation currently has a staff of approximately 125 full-time equivalent employees. Its principal office is located at 10180 Linn Station Road, Post Office Box 24266, Louisville, Kentucky, 40224-0266, telephone number (502) 329-7079.

Principal Management Personnel

Principal management personnel involved in the Corporation's Education Finance and Servicing Activities are as follows:

Roger B. Tharp, President and Chief Operating Officer, has overall responsibility for operations and presently performs all duties of the Executive Director and Chief Executive Officer of the Corporation as that position is presently vacant. Before this appointment in 1993, he was Director of the Division of Program Administration for KHEAA for nineteen years. He has served as Secretary for the National Council on Higher Education Loan Programs and served on its Servicing Committee. He is also a member of the Student Loan Servicing Alliance and currently serves on its Board of Directors. His previous employment includes six combined years of financial aid management experience at the United Electronics Institute and the University of Louisville, and one year in credit management for Sears, Roebuck and Company. Mr. Tharp holds an M.B.A. from the University of Louisville and a B.S. degree in Business and Economics from the University of Kentucky.

Betty P. Barker, Executive Vice President-Corporate Services and Chief Financial Officer, has overall responsibility for the Corporation's financial, administrative and marketing functions. Prior to this appointment in 1993, she was employed by KHEAA for seven years in financial management and accounting positions serving as Assistant Director of the Division of Fiscal Affairs for the last three years. She currently serves on the Education Loan and Finance Committees of the Education Finance Council. Her previous employment includes four years in auditing and accounting in industry and government. Ms. Barker is a Certified Public Accountant and holds an M.B.A. from Bellarmine College, Louisville, and a B.S. degree in Accounting from the University of Kentucky.

Sherry M. Cooper, Senior Vice President-General Counsel, has overall responsibility for general legal, internal audit and compliance activities. Ms. Cooper joined the Corporation in April 1997, after serving as an attorney with the Kentucky Department of Insurance. Her previous employment also includes serving an appointment as a member of the Kentucky Health Policy Board, two years in the private practice of law, and four years with Legal Services. Since 1998, Ms. Cooper has served on the NCHELP Regulation Committee and has participated in the NCHELP Legal Committee. Ms. Cooper holds a J.D. from Chase College of Law, Northern Kentucky University, and a B.A. in Elementary Education from the College of the Ozarks, Missouri.

Mary C. Henry, Senior Vice President-Operations, is responsible for loan servicing, debt recovery and information systems. Ms. Henry joined the Corporation in 1994 and previously served as Vice President, Information Systems. Her prior employment includes fifteen years with Liberty National Bank & Trust Company, where she served as Vice President of Student and Retirement Services. Ms. Henry is a graduate of Bellarmine College, Louisville, with an M.B.A., and a graduate of the University of Louisville, with a B.S. in Commerce.

Kathleen B. Vogt, Vice President-Finance, is responsible for financial management, financial services and administrative services. Before joining the Corporation in 1997, she served five years as Director of Audit for the Kentucky Housing Corporation. Prior to that, Ms. Vogt was employed by Deloitte and Touche. Ms. Vogt is a Certified Public Accountant and holds an M.B.A. from the University of Louisville and a B.A. in Accounting from Bellarmine College, Louisville.

The Corporation's Education Finance and Servicing Activities

General. The Corporation's Education Finance and Servicing Activities currently include: (i) the origination and secondary market acquisition of education loans originated pursuant to the Federal Family Education Loan Program ("FFELP Loans") and the federal Health Education Assistance Loan Program ("HEAL Loans"); (ii) the financing of FFELP Loans; and (iii) the servicing of FFELP Loans and of other education loans. The Corporation reserves the right to expand its Education Finance Activities to include the origination, acquisition and financing of other education loans, subject to compliance with applicable law and contractual requirements. The 2001 Bonds are being issued for the purpose of providing funds for the financing, or refinancing, of FFELP Loans. The General Bond Resolution conditions the expenditure of funds which are credited to the Loan Account to finance education loans other than FFELP Loans upon receipt of a Rating Affirmation.

FFELP Loan Origination and Acquisition. The Corporation is an eligible lender for purposes of the Federal Family Education Loan Program and originates FFELP Loans both for its own account and on behalf of other eligible lenders. Certain origination functions are performed for the Corporation by KHEAA. In addition, the Corporation acquires FFELP Loans from other eligible lenders, both pursuant to ongoing contractual obligations and on a transactional basis. One hundred twenty-five (125) lending institutions currently refer loan applications to the Corporation for origination and four lending institutions currently participate in the secondary market program.

FFELP Loan Financing. The Corporation has heretofore issued several series of its Insured Student Loan Revenue Bonds, of which \$213,965,000 remained outstanding as of December 31, 2000 (the "Insured Student Loan Revenue Bonds") pursuant to a general bond resolution adopted by the Corporation on June 10, 1983, as amended and supplemented from time to time (the "1983 Resolution"). The Insured Student Loan Revenue Bonds are secured as provided by the 1983 Resolution and are not secured by the General Bond Resolution, or by any interest in the Trust Estate pledged under the General Bond Resolution to the payment of the 2001 Bonds. Prior to 1997, all FFELP Loans acquired by the Corporation were financed through application of proceeds of Insured Student Loan Revenue Bonds. The 1983 Resolution permits the application of funds held thereunder to finance FFELP Loans which are guaranteed by KHEAA or insured directly by the Secretary of Education and HEAL Loans.

The Corporation currently has in effect a line of credit agreement (the "2000 Line of Credit") pursuant to which it may receive advances from time to time in an aggregate outstanding principal amount of up to \$100,000,000. Payment obligations of the Corporation arising from advances pursuant to the 2000 Line of Credit are limited as to recourse to the trust estate established pursuant to a 2000 Line of Credit Trust Agreement. The Corporation currently expects to apply a portion of the proceeds of the 2001 Bonds to the refinancing of Student Loans acquired or originated through application of funds advanced to it pursuant to the 2000 Line of Credit.

Neither the Insured Student Loan Revenue Bonds nor the 2000 Line of Credit are payable from Loans or other assets included in the Trust Estate established under the General Bond Resolution. No education loan or other asset pledged under the 1983 Resolution or under the 2000 Line of Credit Trust Agreement is pledged to secure or expected to be available to fund payment of the 2001 Bonds.

The Corporation's statutory debt issuance capacity under the Act was increased, effective July 15, 2000, to \$950,000,000 through operation of House Bill No. 46 as enacted by the 2000 Regular Session of the General Assembly of the Commonwealth of Kentucky. The Corporation reserves the right: (i) to issue additional Insured Student Loan Revenue Bonds to finance and refinance FFELP Loans; (ii) to enter into financing agreements which are secured on a basis separate and apart from the 2001 Bonds and from the Insured Student Loan Revenue Bonds in connection with its Education Finance Program; (iii) to finance education loans which are newly originated or acquired by the Corporation pursuant to any financing arrangement under which funds are available therefor; and (iv) to effect the release of education loans from the lien of any financing arrangement, including the General Bond Resolution, in accordance with the terms thereof through application of amounts available therefor pursuant to any financing arrangement, including the General Bond Resolution.

Outstanding Student Loan Revenue Bonds. The following chart sets forth the Outstanding Student Loan Revenue Bonds under the General Bond Resolution:

Series Designation	Original Amount	Amount Outstanding as of March 31, 2001
Senior Series 1997-A-1	\$ 45,250,000	\$ 45,250,000
Senior Series 1997-A-2	45,200,000	45,200,000
Subordinate Series 1997-B	44,550,000	44,550,000
Senior Series 1998A-1	36,400,000	36,400,000
Senior Series 1998A-2	36,400,000	36,400,000
Senior Series 1998B	42,200,000	42,200,000
Senior Series 1999A	51,350,000	51,350,000
Senior Series 1999B	23,650,000	23,650,000
Senior Series 2000A-1	42,100,000	42,100,000
Senior Series 2000A-2	42,100,000	42,100,000
Senior Series 2000A-3	42,050,000	42,050,000
Senior Series 2000B	23,750,000	23,750,000
Total	<u>475,000,000</u>	<u>475,000,000</u>

Student Loans Securing Student Loan Revenue Bonds. Following are summaries, as of March 31, 2001 of all Student Loans held under the General Bond Resolution:

<u>Loan Type*</u>	<u>Outstanding Principal</u>	<u>Percent of Total</u>
Stafford and FISL	\$ 356,209,090	82%
PLUS and SLS	16,289,138	4%
Consolidation	<u>59,487,463</u>	<u>14%</u>
Total	<u>\$ 431,985,691</u>	<u>100%</u>

<u>Status*</u>		
Interim (includes loans in school and grace)	\$ 193,757,341	45%
Deferment	40,886,232	9%
Repayment	<u>197,342,118</u>	<u>46%</u>
Total	<u>\$ 431,985,691</u>	<u>100%</u>

<u>School Type*</u>		
Four-Year Public	\$ 216,092,209	50%
Four-Year Private	105,722,399	24%
Two-Year Public and Private	20,987,151	5%
Out-of-State Public and Private	15,610,149	4%
Proprietary	14,086,320	3%
Consolidation Loans (not classified by school type)	<u>59,487,463</u>	<u>14%</u>
Total	<u>\$ 431,985,691</u>	<u>100%</u>

* The Corporation has established certain allowances for losses on insured Student Loans which are reflected in its financial statements but not in the preceding summaries.

Availability of Student Loans. The Corporation expects to apply all proceeds of the 2001 Bonds which are to be initially deposited in the Loan Account to refinance or to fund the origination and acquisition of FFELP Loans prior to March 1, 2002. The aggregate amount of projected Corporation purchase commitments pursuant to existing contractual obligations during this period is approximately \$29,350,000. See “USE OF PROCEEDS,” “DESCRIPTION OF THE 2001 BONDS – Redemption Provisions,” and Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Legislative and Administrative Matters.” The General Bond Resolution permits the periodic transfer from the Revenue Account to the Loan Account of Revenues in excess of required Revenue Account applications. See Appendix B – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – The General Bond Resolution – *Revenue Account.*”

The 1993 amendments to the Higher Education Act authorized the implementation of a competing program of direct federal lending. Such implementation may result in an increasing reduction in the volume of FFELP Loans. The federal direct lending program also authorized the Secretary to offer borrowers consolidation loans with income contingent terms if such borrowers are unable to obtain loans with income sensitive repayment terms from any other lender. The number or the dollar volume of FFELP Loans originated, acquired or held by the Corporation or guaranteed by KHEAA may decrease as a result of such implementation and such a decrease may not be proportionate to the percentage by which such implementation reduces the number or the dollar volume of FFELP Loans nationally. Moreover, replacement of FFELP Loans by direct federal lending or some other federal program might affect the availability of FFELP Loans for purchase by the Corporation. While authorization of the Federal Family Education Loan Program and its predecessors has been repeatedly extended, there can be no assurance as to the likelihood of further extension or of any change in present federal policy relative to the financing of post-secondary education. The Corporation does not expect, however, the development of federal policy to have a material adverse effect upon its ability to pay debt service on its Bonds in a timely fashion or to discharge its obligations under the Resolutions. The Corporation further expects that substantially all of the Student Loans to be acquired, originated or refinanced through the expenditures of 2001 Bond proceeds, or of other amounts becoming available in the Trust Estate, will be Student Loans which have been or will be originated subsequent to July 1, 1994 and that a substantial portion of such Student Loans have been or will be originated subsequent to January 1, 2000. See “DESCRIPTION OF THE 2001 BONDS – Redemption Provisions” herein and Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Legislative and Administrative Matters” and “– Federal Direct Student Loan Program.”

Servicing of FFELP Loans and Other Education Loans. The Corporation currently expects to service all Student Loans held under the Resolutions. It currently services approximately \$630 million outstanding principal amount of FFELP Loans which are pledged pursuant to the Resolutions, the 1997 General Bond Resolution or the 2000 Line of Credit Trust Agreement and approximately \$700 million of FFELP Loans and other education loans on behalf of other holders, including holders with national lending operations. The majority of such education loans are being serviced by the Corporation pursuant to servicing agreements which do not provide for the acquisition by the Corporation of the education loans serviced. In addition, the Corporation currently collects approximately \$67 million of FFELP Loans and other education loans for other holders on a commission basis. The Corporation expects to enter into additional servicing and collection agreements, and to increase the outstanding balance and number of education loans under existing agreements. The Corporation’s servicing obligations pursuant to such servicing and collection agreements are without recourse to assets pledged to secure any Corporation financings, including the Trust Estate established under the Resolutions to secure the Bonds. The Corporation currently subcontracts certain FFELP Loan servicing functions. The Corporation deposits all FFELP Loan payments upon receipt into clearing accounts with financial institutions and periodically transfers payments from such clearing accounts to the applicable holder or fiduciary.

The Corporation currently services its FFELP Loans utilizing software purchased from IFA Systems, a division of Idaho Financial Associates, Inc., which has been in the student loan business for over 15 years. The Corporation has entered into an agreement with IFA Systems pursuant to which IFA has agreed to provide, from time-to-time, program changes in order to assure that the Corporation is able to comply with changes in provisions of the Higher Education Act. IFA Systems also makes certain other changes requested by the Corporation in its role as servicer for various types of loans.

The Higher Education Act requires that the Corporation and its agents and employees exercise “due diligence” in the servicing and collection of FFELP Loans. The Higher Education Act defines “due diligence” to require the holders of a FFELP Loan to utilize collection practices at least as extensive and forceful as those generally practiced by financial institutions for the collection of consumer loans. Federal regulations prescribe a series of actions that must be taken by a lender in the collection of delinquent (past due) FFELP Loans. Additionally, those regulations set forth specific requirements that a lender or holder of FFELP Loans must meet to constitute due diligence in the making, disbursing, and servicing of FFELP Loans. Failure to exercise such reasonable care and diligence may result in the disqualification of an “eligible lender” (which could include the Corporation as a holder of FFELP Loans) from further federal insurance payments on affected loans if the applicable guaranty agency determines that the foregoing standards have not been met. The Corporation or a lender may not relieve itself of its responsibility for meeting these standards by delegation to any servicing agent and, accordingly, if any third party servicer of the Corporation’s FFELP Loans fails to meet such standards, the Corporation’s ability to realize the benefits of the guaranty agency’s insurance payments may be adversely affected.

The Higher Education Act requires that a guaranty agency ensure that due diligence be exercised by lenders in making, servicing and collecting FFELP Loans guaranteed by the guaranty agency. Each guaranty agency must establish procedures and standards for due diligence which are consistent with federal standards. If the Corporation or any third party servicer of the Corporation’s FFELP Loans does not comply with the due diligence standards established by the Higher Education Act and federal regulations, then the Corporation’s ability to realize the benefits of guarantee payments and the guaranty agency’s ability to realize the benefits of federal reinsurance payments may be adversely affected.

The Corporation retains the right to provide for administration of its Education Finance Program in the most economically efficient manner, subject to its contractual obligations in connection with financings. The Corporation has reserved the right to assist student borrowers by reducing up front fees, implementing interest rate discounts to reward borrowers for a history of timely payments, or other borrower benefits, which may have the effect of reducing loan yield with respect to Student Loans, provided that the Corporation obtains a Rating Affirmation. The Corporation currently pays, on behalf of certain borrowers, varying portions of the up-front fees otherwise payable by such borrowers, equivalent to up to three percent of the principal amount of the borrowers’ FFELP Loans. In addition, the Corporation currently discounts interest rates payable by borrowers who have qualified on the basis of making consecutive timely payments, or of agreeing to automatic payment arrangements, by up to two percent. The Corporation currently expects to continue to offer these borrower benefits, but reserves the right to discontinue or alter them, and to offer additional or different benefits, in the future.

Prior to an Event of Default, the Trustee has no duties or obligations to service or collect or monitor the servicing and collecting of Student Loans by the Corporation as servicer or any other subservicer. The Trustee also is not be responsible for accounting and reporting functions required under the Higher Education Act to preserve the guarantee of the guarantee agency or the insurance of the Secretary on the Student Loans.

Prior to an Event of Default, the Corporation, and not the Trustee, is the custodian of the Student Loan notes. The Trustee shall have no responsibility for loss of or damage to the Student Loan notes held by the Corporation as the custodian or by its agents. The Corporation as custodian, and not the Trustee, is responsible for reviewing and servicing, respectively, each Student Loan and safekeeping and preserving it. The Trustee shall have no responsibility or liability for examination, safekeeping, preserving, or servicing of the Student Loans.

The Trustee may have certain duties relating to the foregoing matters specified in the preceding two paragraphs upon the occurrence of an Event of Default, as provided in the General Bond Resolution.

GUARANTY AGENCIES

General

The Resolutions permit the application of amounts credited to the Loan Account to finance FFELP Loans which are guaranteed or insured: (i) by KHEAA; (ii) by any other guaranty agency under the Higher Education Act, subject to receipt of a Rating Affirmation; and (iii) by any successor to the obligations of any such entity. The Corporation expects to apply all 2001 Bond proceeds to be initially deposited in the Loan Account to finance FFELP

Loans which are guaranteed by KHEAA, but reserves the right to apply amounts credited to the Loan Account to finance other education loans in compliance with the Resolutions.

The Kentucky Higher Education Assistance Authority

KHEAA is a public corporation and governmental agency and instrumentality of the Commonwealth established in 1966 to serve the public purpose of improving opportunities for higher education by insuring student loans for students eligible under the Higher Education Act; providing loans, grants, and scholarship awards to qualified Kentucky students; and offering information relating to KHEAA programs to Kentucky residents.

The powers of KHEAA with respect to insuring student loans include: (i) providing loan insurance within the limitations of Kentucky law and the Higher Education Act, the loan in each case to be subject to agreements providing for interest payments, reimbursements, reinsurance and other benefits to the extent provided by the Higher Education Act; (ii) entering into agreements and undertakings with the Secretary in order to constitute KHEAA as a state agency qualified to insure student loans under the Higher Education Act and to qualify such student loans for interest subsidies, reimbursement, reinsurance, and other benefits available under the Higher Education Act; (iii) entering into contracts with eligible lenders and eligible education institutions to provide for the administration of student financial assistance programs; (iv) collecting from the borrower amounts due under a student loan on which KHEAA has fulfilled its insurance obligations following the inability of the holders to collect such loan; (v) approving, limiting, suspending, or terminating the eligibility of educational institutions or lenders to participate in KHEAA's Loan Guarantee Program, subject to the provisions of the Higher Education Act and applicable Kentucky law; (vi) if any conflict exists between applicable Commonwealth law and the Higher Education Act that would result in a loss by KHEAA of federal funds, adopting rules, regulations, and policies consistent with the Higher Education Act, but which are not in derogation of the Constitution and general laws of the Commonwealth; (vii) administering federal funds allotted to the Commonwealth in respect of student loans, administrative costs, and other matters; and (viii) receiving funds and acquiring property from any source, public or private, except that KHEAA has no power to make its debts payable out of any funds other than those of KHEAA.

In addition to its student loan guarantee functions, KHEAA offers origination services to lenders, administers two state grant programs, one merit scholarship program, one teacher incentive loan program, one osteopathic medicine scholarship program and the state work-study program in order to provide financial assistance to eligible students. Such programs are substantially funded by the Commonwealth supplemented by federal funds. Effective May 10, 1990, responsibilities for the Kentucky Education Savings Plan Trust (Trust) were transferred to KHEAA by Executive Order 90-433 ratified by the Kentucky General Assembly. The Trust offers opportunities for families to save for future college costs. Trust funds are fully segregated from all other funds managed by KHEAA.

KHEAA is governed by its Board of Directors, which may officially act by a majority of its voting members. The Board of Directors of KHEAA consists of seven voting members appointed by the Governor of the Commonwealth for terms of four years each and the President of the Council on Postsecondary Education of the Commonwealth and the Secretary of the Finance and Administration Cabinet of the Commonwealth, each of whom serve as non-voting, *ex officio* members. The Chief Operating Officer is Londa L. Wolanin. KHEAA's office is located at 1050 U.S. 127 South, Frankfort, Kentucky 40601, telephone number (502) 696-7200.

KHEAA's Loan Guarantee Program. In November 1978, KHEAA commenced guaranteeing student loans as the state guarantee agency of the Commonwealth under Section 428(c) of the Higher Education Act and in accordance with Kentucky law and KHEAA's agreements with the Secretary.

Pursuant to KHEAA's Loan Guarantee Program, any eligible holder of a loan guaranteed by KHEAA is entitled to reimbursement from KHEAA to the maximum extent permitted by the Higher Education Act for any proven loss incurred resulting from the default, death, permanent and total disability, or discharge in bankruptcy of the borrower and with respect to certain other claims. At the time KHEAA pays a claim for reimbursement of a defaulted loan, the holder must assign to KHEAA all rights accruing to the holder under the note.

On April 18, 1995, an agreement between the Alabama Commission on Higher Education (ACHE) and KHEAA was approved by the U.S. Department of Education for the transition of the Alabama Guaranteed Student Loan Program to KHEAA. KHEAA began to guarantee FFELP Loans for lenders and students in the state of

Alabama on June 2, 1995. KHEAA was designated by the U.S. Department of Education as the guarantor for Alabama effective July 1, 1996.

Loan Insurance Fund. Pursuant to Kentucky Revised Statutes Sections 164.740 through 164.785, KHEAA has established a Loan Insurance Fund used to account for all loan related activities. The Loan Insurance Fund includes the Federal Student Loan Reserve Fund and an Agency Operating Fund established under the Higher Education Amendments of 1998.

Sources of funds for the Loan Insurance Fund include (i) insurance premiums for loans guaranteed; (ii) loans processing and issuance and account maintenance fees from the Secretary; (iii) reinsurance from the Secretary for default and other claims paid; (iv) default collections; (v) and investment income derived from such funds. Uses of funds are default and other claims on loans guaranteed, and operating expenses for loan guarantee functions.

Pursuant to Kentucky Revised Statutes, Sections 164.740 to 164.785, as amended, KHEAA is authorized to issue loan guarantees to eligible lenders on any loans to qualified students, provided that no additional loans may be guaranteed if the total amount of all outstanding student loans guaranteed by KHEAA exceeds seventy-five times the funds available in the Loan Insurance Fund. Funds available in the Loan Insurance Fund are calculated on the basis of the net assets before deducting unearned insurance premiums, which equals the fund balance plus unearned insurance premiums. Funds available in the Loan Insurance Fund are restricted by federal regulations and the Higher Education Act.

Outstanding loan guarantee commitments by ACHE, on which no claims had been filed or paid, were assumed by KHEAA on December 31, 1995. Accounts held by ACHE on which default claims were paid prior to April 13, 1993, that remained in active repayment status and accounts held by ACHE on which default claims were paid after April 15, 1993, were transferred to KHEAA prior to June 30, 1996. Following the transfer of defaulted accounts, remaining Alabama federal reserve funds were transferred to KHEAA and credited to the Loan Insurance Fund.

Pursuant to the 1997 Amendments, KHEAA must pay approximately \$14 million (its proportionate share of guarantee agency reserves to be paid for federal deficit reduction) to the Secretary on September 1, 2002, and make annual restricted account deposits toward such payment beginning in federal fiscal year 1998 of approximately \$2.8 million. The 1998 Amendments also require smaller proportionate reserve returns in 2002, 2006 and 2007. The Secretary has not yet determined the agency's share of such returns under the 1998 Amendments. See Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Federal Insurance and Reinsurance and Reimbursement of Guaranty Agencies."

The following table summarizes the student loans guaranteed by KHEAA (and reinsured by the Secretary) annually, the aggregate outstanding guarantee commitment for the periods indicated, and KHEAA's Claims Rate for purposes of reinsurance. The Coverage Ratio set forth below is determined by dividing the funds available in the Loan Insurance Fund by the principal amount of the aggregate outstanding guarantee commitment.

<u>Fiscal Year Ended June 30</u>	<u>Annual Principal Amount of Loans Guaranteed</u>	<u>Aggregate Principal Guarantee Commitment</u>	<u>Coverage Ratio</u>	<u>Claims Rate**</u>
1996	\$258,667,310*	\$1,584,863,271	2.54%	4.79%
1997	314,023,470	1,625,863,960	2.60	4.22
1998	330,006,170	1,637,204,817	2.35	3.88
1999	345,249,100	1,779,865,400	1.95	2.78
2000	454,779,609	1,976,730,128	1.48	1.43

*An additional amount of \$646,928,418 was transferred to KHEAA from ACHE.

**At federal fiscal year ending September 30.

No Pledge of KHEAA's Funds and Assets. The funds and assets of KHEAA are not pledged to or available for payment of the Bonds.

CONTINUING DISCLOSURE

General

In accordance with the requirements of Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission (the “SEC”), the Corporation will enter into separate continuing disclosure undertakings (each a “Continuing Disclosure Agreement”) with the Trustee for each of: (i) the Senior Series 2001A Bonds; and (ii) the Subordinate Series 2001B Bonds which shall constitute a written undertaking for the benefit of the respective owners of such Bonds, solely to assist the underwriter in complying with subsection (b)(5) of the Rule.

The Corporation will agree in each Continuing Disclosure Agreement to provide to the Trustee, which shall provide within 5 Business Days after receipt thereof, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of subsection (b)(5) of the Rule (each, a “Repository”), annual financial information and operating data (the “Annual Financial Information”) relating to it and any Additional Obligated Persons (defined below) covering the matters described under “Annual Financial Information” below. The Corporation will also agree to provide to each Repository, in a timely manner, notice of any of the events (“Event Notice”) if determined by the Corporation to be material, as described under “Event Notices” below.

The Corporation has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide Annual Financial Information or notices of material events. The on-going disclosure obligations of the Corporation shall terminate upon the full payment, prior redemption or legal defeasance of the Senior Series 2001A Bonds or the Subordinate Series 2001B Bonds, as applicable, or with respect to any Additional Obligated Person, at the time that the party no longer meets the definition of Additional Obligated Person.

The Corporation may appoint or engage a dissemination agent to assist in carrying out its obligations under the Continuing Disclosure Agreements.

The Corporation may amend each Continuing Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, without the consent of the respective owners of the Senior Series 2001A Bonds or the Subordinate Series 2001B Bonds, as applicable (except to the extent required under clause (4)(ii) below) if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Corporation or any Additional Obligated Person or the type of business conducted thereby; (2) the applicable Continuing Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of such Continuing Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the Corporation shall have delivered to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Corporation and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) the Corporation shall have delivered to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Corporation and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Senior Series 2001A Bonds or the Subordinate Series 2001B Bonds, as applicable, or (ii) the holders of the Senior Series 2001A Bonds or the Subordinate Series 2001B Bonds, as applicable, consent to the amendment to the applicable Continuing Disclosure Agreement pursuant to the same procedures as are required for amendments to the Resolutions with consent of holders of the Senior Series 2001A Bonds or the Subordinate Series 2001B Bonds, as applicable, pursuant to the terms of the Resolutions as in effect on the date of such Continuing Disclosure Agreement; and (5) the Corporation shall have delivered copies of such opinion and amendment to each Repository.

In the event of default by the Corporation of its obligations under any Continuing Disclosure Agreement to provide continuing disclosure, the Beneficial Owners of the Senior Series 2001A Bonds or the Subordinate Series 2001B Bonds, as applicable, and the Trustee on behalf of such owners may take action to compel compliance, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the Corporation’s obligations under the applicable Continuing Disclosure Agreement. No such default under either Continuing Disclosure Agreement shall constitute an Event of Default under the Resolutions.

Annual Financial Information

The Corporation will provide Annual Financial Information for the Corporation and any Additional Obligated Person within 270 days of the end of such party's fiscal year (the "Reporting Date"), beginning with the fiscal year in each case ending on or after January 1, 2001. Such Annual Financial Information shall consist of the following information:

(I) Annual audited financial statements for the Corporation and for any Additional Obligated Person prepared in accordance with generally accepted accounting principles.

(II) An update of the tabular information presented under the heading "THE CORPORATION" or the heading "GUARANTY AGENCIES" in this Official Statement.

If the audited financial statements for the Corporation or the Additional Obligated Person, as the case may be, are not available by the Reporting Date, unaudited financial statements of the Corporation or an Additional Obligated Person, as the case may be, are to be provided as part of the applicable Annual Financial Information and audited financial statements for the Corporation or an Additional Obligated Person, as the case may be, when and if available, will be provided to the Trustee and each Repository. If the fiscal year of the Corporation or an Additional Obligated Person, as the case may be, changes, the Corporation or an Additional Obligated Person, as the case may be, shall give notice of such change in the same manner and time as an Event Notice.

Event Notice

In addition to the Annual Financial Information described above, the Corporation will also agree to provide an Event Notice upon the happening of and with respect to any of the following events, if material, with respect to the applicable Series of 2001 Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults;
- (3) Unscheduled draws on the debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events adversely affecting the tax exempt status of the Subordinate Series 2001B Bonds;
- (7) Modifications to rights of owners of the applicable Series of 2001 Bonds;
- (8) Calls of the applicable Series of 2001 Bonds;
- (9) Defeasances of the applicable Series of 2001 Bonds;
- (10) Release, substitution or sale of assets securing repayment of the applicable Series of 2001 Bonds; and
- (11) Rating changes.

Definitions

"Additional Obligated Person" means, prior to receipt by the Trustee of a Negative Opinion or the issuance of a written interpretation by the Staff of the SEC, any Guarantor that is guaranteeing student loans having an aggregate principal amount of at least 20% of the aggregate principal amount of all student loans.

"Negative Opinion" means an opinion with respect to a person or entity that is issued by a nationally recognized bond counsel firm or counsel expert in federal securities laws, which counsel and opinion are in form and substance acceptable to the Corporation, to the effect that such person or entity does not constitute an "obligated person" with respect to the Senior Series 2001A Bonds or the Subordinate Series 2001B Bonds, as applicable, within the meaning of the Rule.

Repository

A listing of active NRMSIR's and contact information for each such NRMSIR is currently made available by the SEC on its website at <<http://www.sec.gov/info/municipal/nrmsir.htm>>. The following are the current repositories for the purposes of the continuing disclosure required under each Continuing Disclosure Agreement:

Bloomberg Municipal Repositories
P.O. Box 840
Princeton, NJ 08542-0840
E-Mail Address: Munis@Bloomberg.com
Telephone: (609) 279-3225
Fax: (609) 279-5962

DPC Data Inc.
One Executive Drive
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TAX MATTERS

Opinion of Bond Counsel

Certain Tax Information with respect to Senior Series 2001A Bonds. In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing statutes and court decisions, interest on the Senior Series 2001A Bonds is included in gross income for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code").

Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Senior Series 2001A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

In the opinion of Bond Counsel, under existing statutes, the Senior Series 2001A Bonds, the income thereon, and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth.

Certain Tax Information with respect to Subordinate Series 2001B Bonds. In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Subordinate Series 2001B Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Subordinate Series 2001B Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation in connection with the Subordinate Series 2001B Bonds, and Bond Counsel has assumed compliance by the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subordinate Series 2001B Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, the Subordinate Series 2001B Bonds, the income thereon, and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Subordinate Series 2001B Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the Issue Date, and assumes no obligation to update its opinion after the Issue Date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Subordinate Series 2001B Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Subordinate Series 2001B Bonds in order that interest on the Subordinate Series 2001B Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Subordinate Series 2001B Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Subordinate Series 2001B Bonds to become included in gross income for federal income tax purposes retroactive to their Issue Date, irrespective of the date on which such noncompliance occurs or is discovered. The Corporation has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Subordinate Series 2001B Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Subordinate Series 2001B Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Subordinate Series 2001B Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Subordinate Series 2001B Bonds.

Prospective owners of the Subordinate Series 2001B Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for federal income tax purposes. Interest on the Subordinate Series 2001B Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Legislation

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Subordinate Series 2001B Bonds will not have an adverse effect on the tax-exempt status or market price of the Subordinate Series 2001B Bonds.

LEGALITY FOR INVESTMENT

Subject to any applicable federal requirements or limitations, the 2001 Bonds in the Commonwealth are securities in which all public officers and public bodies of the Commonwealth, political subdivisions thereof, insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees, and other fiduciaries may properly and legally invest funds, including capital, in their control or belonging to them.

ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation of any nature pending or threatened to restrain or enjoin issuance, sale, execution or delivery of the 2001 Bonds, or in any way contesting or affecting the validity of the 2001 Bonds, any proceedings of the Corporation taken with respect to the issuance of sale thereof; and as of the date hereof, there is no litigation pending, or threatened which would materially adversely affect the pledge or application of any moneys or security provided for the payment of the 2001 Bonds or the powers of the Corporation.

APPROVAL OF LEGALITY

Certain legal matters in connection with the 2001 Bonds are to be passed upon by Hawkins, Delafield & Wood, New York, New York, Bond Counsel. Certain legal matters are to be passed upon for the Underwriter by its counsel, Squire, Sanders & Dempsey L.L.P. The unqualified approving opinion of Bond Counsel to the Corporation shall accompany each of the Senior Series 2001A Bonds and the Subordinate Series 2001B Bonds substantially in the respective form attached to this Official Statement as Appendix D.

RATINGS

Moody's is expected to assign its municipal bond rating of "Aaa" to the Senior Series 2001A Bonds and its municipal bond rating of "A2" to the Subordinated Series 2001B Bonds. Such ratings reflect only the view of Moody's and an explanation of the significance of such ratings can only be obtained from Moody's. There is no assurance that such ratings will be continued for any given period of time or that they will not be revised downward or withdrawn entirely by Moody's if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect upon the market price or the marketability of the 2001 Bonds.

UNDERWRITING

The 2001 Bonds are to be purchased by the Underwriter. The Underwriter is to purchase the Senior Series 2001A Bonds at a purchase price of \$119,327,134.50 and is to purchase the Subordinate Series 2001B Bonds at a purchase price of \$30,205,615.50.

APPROVAL OF ISSUANCE OF THE 2001 BONDS

Issuance of the 2001 Bonds by the Corporation was approved by the Governor of the Commonwealth. The Corporation expects the issuance of the 2001 Bonds to receive all necessary state approvals.

INDEPENDENT ACCOUNTANTS

The Corporation's financial statements as of June 30, 2000 and 1999 and for the years then ended, included in this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing in Appendix C herein.

MISCELLANEOUS

Since the 2001 Bonds are special and limited obligations of the Corporation, payable solely from the Trust Estate pledged under the Resolutions, the overall financial status of the Corporation does not indicate and does not necessarily affect whether such revenues and other amounts will be available under the Resolutions to pay the principal of and interest on the 2001 Bonds. The Corporation is not obligated to pay any amounts in respect of principal and/or interest on the 2001 Bonds from any moneys legally available to the Corporation for its general purposes other than those expressly pledged.

The information set forth in this Official Statement relating to the Corporation and KHEAA was obtained from the records of the Corporation and KHEAA and from other sources considered reliable.

All quotations from, and summaries and explanations of, the Higher Education Act, the Act, the State Guarantee Act and the Resolutions contained herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. The Appendices attached hereto are part of this Official Statement. Copies of the Act and the Resolutions may be obtained upon written request directed to the Corporation, P.O. Box 24266, Louisville, Kentucky 40224-0266.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement is not to be construed as a contract or agreement between the Corporation and the purchasers or owners of any Bonds.

**KENTUCKY HIGHER EDUCATION
STUDENT LOAN CORPORATION**

By: /s/ Roger B. Tharp
President and Chief Operating Officer

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Appendix A

Summary of Certain Provisions of the Federal Family Education Loan Program

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SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

Title IV of the Higher Education Act provides for a program (the “Federal Family Education Loan Program,” the “FFEL Program,” or the “Program”) of loans (collectively, “FFELP Loans”) to students and parents of dependent students, which loans are: (i) guaranteed by a state agency or private non-profit corporation and reinsured by the federal government; or (ii) directly insured by the federal government. Several types of FFELP Loans are currently authorized under the Program: (i) fully subsidized loans to students who demonstrate need on the basis of certain tests, presently known as Federal Stafford Loans (“Subsidized Stafford Loans”); (ii) generally similar loans, with respect to the full amount borrowed to students who do not pass such need tests, known as Federal Unsubsidized Stafford Loans (“Unsubsidized Stafford Loans” and, collectively with Subsidized Stafford Loans, “Stafford Loans”); (iii) loans to parents of students who are dependents, presently known as Federal PLUS Loans (“PLUS Loans”); and (iv) loans to consolidate the borrower’s obligations under various federally authorized student loan programs into a single loan, presently known as Federal Consolidation Loans (“FFEL Consolidation Loans”). Prior to July 1, 1994, the Program also included a separate type of loan to graduate and professional students and, under certain circumstances, undergraduate students, to supplement their Stafford Loans (“Supplemental Loans to Students” or “SLS Loans”). The principal federal benefits which the Federal Family Education Loan Program provides to holders of loans originated thereunder are: (i) federal insurance by the federal Department of Education (the “Department”) or federal reinsurance by the Department of guarantees provided by guaranty agencies; (ii) federal interest subsidy payments to holders of certain loans in lieu of borrower payments during certain periods defined by borrower status (“Interest Subsidy Payments”); and (iii) federal special allowance payments to holders of certain loans during certain periods defined by interest rate levels (“Special Allowance Payments”). See “Federal Budgetary Constraints” below.

This summary of the Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Higher Education Act and the regulations thereunder.

Legislative and Administrative Matters

Title IV of the Higher Education Act is subject to periodic legislative reauthorization, which was most recently accomplished through operation of the Higher Education Amendments of 1998 (the “1998 Amendments”). Both Title IV of the Higher Education Act and the regulations promulgated thereunder have been the subject of frequent and extensive amendments in recent years and there can be no assurance that further amendment will not materially change the provisions described herein or the effect thereof. In addition, the operation of the Program has recently been, and may be, affected by proposed and enacted federal budgetary and tax legislation. Recent legislation substantially affecting the Program includes: the Omnibus Budget Reconciliation Act of 1990 (the “1990 Budget Act”); the Higher Education Amendments of 1992 (the “1992 Amendments”); the Student Loan Reform Act of 1993 (the “1993 Amendments”); the Higher Education Technical Amendments Act of 1993 (the “1993 Technical Amendments”); the Balanced Budget Act of 1997; the Emergency Student Loan Consolidation Act of 1997; the Intermodal Surface Transportation Efficiency Act of 1998 (the “1998 Transportation Act”); the 1998 Amendments; and the Ticket to Work and Work Incentives Improvement Act of 1999 (the “1999 Amendments”).

Disbursement of FFELP Loans pursuant to the Program is currently authorized to September 30, 2004 (or, in the case of borrowers who have received loans prior to that date, to September 30, 2008, except that authority to make Consolidation Loans under the Program expires on September 30, 2004). See “Legislative and Administrative Matters — *Certain Recent Developments*” below.

Certain Recent Developments. The Corporation currently expects that substantially all of the Student Loans to be added to the Trust Estate through the expenditure of 2001 Bond proceeds, or of other amounts becoming available in the Trust Estate will be Student Loans which have been or will be originated subsequent to July 1, 1994, and that a substantial portion of such Student Loans have been or will be originated subsequent to January 1, 2000. In addition, although the Resolution permits the acquisition of FFELP Loans without regard to date of origination,

the Corporation does not currently expect that a material portion of Student Loans originated prior to October 1, 1992, or to borrowers with outstanding FFELP Loans originated on or prior to such date, will be included in the Trust Estate. The interest rates and formula for determining Special Allowance Payments applicable to FFELP Loans prior to July 1, 1998 are generally described in the following sections of this summary.

The 1998 Transportation Act changed the interest rate and Special Allowance Payment formulas for Stafford Loans and PLUS Loans disbursed during the period from July 1, 1998 through September 30, 1998. Stafford Loans originated during this period bear interest, during in-school grace and deferment periods, at the average bond equivalent rate of 91-Day Treasury bills (the “91-Day T-Bill Rate”) plus 1.7 percent, with a maximum rate of 8.25 percent, and otherwise bear interest at a rate equivalent to the 91-Day T-Bill Rate plus 2.3 percent, with a maximum rate of 8.25 percent. PLUS Loans disbursed during this period bear interest at a rate equivalent to the 91-Day T-bill Rate plus 3.1 percent, with a maximum rate of 9 percent. In addition, holders of Stafford Loans are entitled to receive Special Allowance Payments, during in-school and grace periods, based upon the 91-Day T-Bill Rate plus 2.2 percent and, otherwise, based upon the 91-Day T-Bill Rate plus 2.8 percent. Holders of PLUS Loans are entitled to receive Special Allowance Payments, when the 9 percent maximum rate applies, based upon the 91-Day T-Bill Rate plus 3.1 percent. See “Special Allowance Payments” below.

Under the 1998 Amendments Stafford Loans disbursed during the period from October 1, 1998 through June 30, 2003 bear interest, during in-school, grace and deferment periods, at a rate equivalent to the 91-Day T-Bill Rate plus 1.7 percent, with a maximum rate of 8.25 percent, and otherwise bear interest at a rate equivalent to the 91-Day T-Bill Rate plus 2.3 percent, with a maximum rate of 8.25 percent. PLUS Loans disbursed during this period bear interest at a rate equivalent to the 91-Day T-Bill Rate plus 3.1 percent, with a maximum rate of 9 percent. FFEL Consolidation Loans disbursed during this period bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1 percent, with a maximum rate of 8.25 percent. In addition, holders of Stafford Loans disbursed during the period from October 1, 1998 through December 31, 1999 are entitled to receive Special Allowance Payments, during in-school and grace periods, based upon the 91-Day T-Bill Rate plus 2.2 percent and, otherwise, based upon the 91-Day T-Bill Rate plus 2.8 percent. Holders of PLUS and FFEL Consolidation Loans are entitled to receive Special Allowance Payments, when the applicable maximum rates apply, based upon the 91-Day T-Bill Rate plus 3.1 percent. Under the 1999 Amendments: (i) holders of Stafford Loans disbursed during the period from January 1, 2000 through June 30, 2003 are entitled to receive Special Allowance Payments, during in-school and grace periods, based upon the average of the bond equivalent rates of the 3-month commercial paper (Financial) rate as reported by the Federal Reserve (the “CP Rate”) plus 1.74 percent and, otherwise, based upon the CP Rate plus 2.34 percent; and (ii) holders of PLUS and FFEL Consolidation Loans disbursed during this period are entitled, when maximum rates apply, to receive Special Allowance Payments based upon the CP Rate plus 2.64 percent. See “Special Allowance Payments” below.

Eligible Borrowers and Institutions

FFELP Loans may only be made to Qualified Students and parents of dependent Qualified Students or to consolidate obligations under various federally authorized student loan programs. A “Qualified Student” is generally defined as a citizen, national or permanent resident of the United States or otherwise eligible individual under federal regulations who: (i) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress in a program leading to a recognized educational credential at an eligible institution; (ii) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution; (iii) has agreed to notify promptly the holder of the FFELP Loan of any address change or certain changes in status; and (iv) meets the “need” requirements, if applicable, for the particular FFELP Loan program. FFELP Loans are unsecured loans, which may be documented, and in which a security interest may be perfected, as provided in the Higher Education Act.

Eligible institutions include institutions of higher education, postsecondary vocational institutions, proprietary institutions of higher education, and institutions outside of the United States which are approved by the Secretary. Eligible institutions of higher education must meet certain standards, which generally provide that the institution: (i) only admits persons who have a high school diploma or its equivalent, or persons who are beyond the age of compulsory school attendance; (ii) is legally authorized to provide a program of postsecondary education within a State; (iii) provides a program for which it awards a bachelor’s degree, a program of not less than two years

acceptable for full credit toward a bachelor's degree or a program of not less than one year to prepare students for gainful employment in a recognized occupation; (iv) is a public or non-profit institution; and (v) is accredited by a nationally recognized accrediting agency or is determined by the Secretary to be likely to meet the standards of an accredited institution. Eligible postsecondary vocational institutions include educational institutions which provide an eligible program of training to prepare students for gainful employment in a recognized occupation, which otherwise comply with the standards applicable to institutions of higher education and which have been in existence for at least two years. Eligible proprietary institutions of higher education include schools, other than public or non-profit institutions, which provide an eligible program of training to prepare students for gainful employment in a recognized occupation, which otherwise comply with the standards applicable to institutions of higher education, which have been in existence for at least two years and which receive at least 10 percent of revenues from sources other than specified federal programs, including the Program. With certain exceptions, an institution with a cohort default rate that is higher over a period of time than the specified thresholds in the Higher Education Act is not an eligible institution. An institution's cohort default rate is generally based on the percentage of its current and former students who default on their Stafford Loans or SLS Loans within a specified period of time after entering repayment. The general threshold for such disqualification is currently 25 percent.

With specified exceptions, institutions are excluded from consideration as eligible institutions if the institution: (i) offers more than 50 percent of its courses by correspondence; (ii) enrolls 50 percent or more of its students in correspondence courses; (iii) has a student enrollment in which more than 25 percent of the students are incarcerated; or (iv) has a student enrollment in which more than 50 percent of the students are admitted without a high school diploma or its equivalent on the basis of their ability to benefit from the education provided (as defined by statute and regulation). Further, institutions are specifically excluded from participation if: (i) the institution has filed for bankruptcy; or (ii) the owner, or its chief executive officer, has been convicted or pled *nolo contendere* or guilty to a crime involving the acquisition, use or expenditure of federal student aid funds, or has been judicially determined to have committed fraud involving funds under the student aid program. In order to participate in the program, the eligibility of an institution must be approved by the Department under standards established by regulation.

Financial Need Analysis

FFELP Loans may generally be made in amounts, subject to certain limits and conditions, to cover the student's estimated costs of attendance, including tuition and fees, books, supplies, room and board, transportation and miscellaneous personal expenses (as determined by the institution). Each Stafford Loan borrower must undergo a need analysis, which requires the borrower to submit a need analysis form to a multiple data entry processor, which forwards the information to the federal central processor. The central processor evaluates the parents' and student's financial condition under federal guidelines and calculates the amount that the student and/or the family must contribute towards the student's cost of education (the "Family Contribution"). After receiving information on the family contribution, the institution then subtracts the Family Contribution from its costs of attendance to determine the student's eligibility for grants, loans, and work assistance. The difference between the amount of grants and Subsidized Stafford Loans for which the borrower is eligible and the student's estimated costs of attendance (the "Unmet Need") may be borrowed through Unsubsidized Stafford Loans, subject to certain loan limits. Parents may finance the Family Contribution amount through their own resources or through PLUS Loans. Provisions addressing the implementation of need analysis and the relationship between Unmet Need for financing and the availability of Subsidized Stafford Loan funding have been the subject of frequent and extensive amendments in recent years. There can be no assurance that further amendment to such provisions will not materially affect the availability of Subsidized Stafford Loan funding to borrowers or the availability of Subsidized Stafford Loans for secondary market acquisition.

Stafford Loans Generally

Interest. Stafford Loans bear interest at a rate not in excess of 7 percent per annum if made to a borrower to cover costs of instruction for any period beginning prior to January 1, 1981, or if a subsequent Stafford Loan is made to such a borrower. Stafford Loans made to new borrowers for periods of instruction beginning during the period from January 1, 1981 through September 12, 1983, and subsequent Stafford Loans to such borrowers, bear interest at a rate of 9 percent per annum. Stafford Loans made to new borrowers for periods of enrollment beginning during the period from September 13, 1983 through June 30, 1988 and subsequent Stafford Loans to such borrowers, bear interest at a rate of 8 percent per annum. Stafford Loans made to new borrowers for periods of enrollment beginning during the period from July 1, 1988 through September 30, 1992 pursuant to Section 427A of the Higher Education Act (“427A Loans”) initially bore interest at rates of 8 percent per annum from disbursement through four years after repayment commences and 10 percent per annum thereafter, subject to a provision requiring periodic discharge of principal, or payment to the Secretary, to the extent that quarterly interest so calculated exceeded the amount that would result from application of the 91-Day T-Bill Rate for such quarter, plus 3.25 percent, or, with respect to 427A Loans disbursed to new borrowers during the period from July 24, 1992 through September 30, 1992, plus 3.1 percent. However, all 427A Loans were required, under the 1993 Technical Amendments, to be converted by January 1, 1995 to variable rate loans bearing interest at the 91-Day T-Bill Rate plus 3.25 percent or, with respect to 427A Loans disbursed to new borrowers during the period from July 24, 1992 through September 30, 1992, plus 3.1 percent. Stafford Loans first disbursed to new borrowers during the period from October 1, 1992 through June 30, 1994, and subsequent Stafford Loans to such borrowers, bear interest at the 91-Day T-Bill Rate plus 3.1 percent, not to exceed 9 percent. Stafford Loans first disbursed to new borrowers during the period from July 1, 1994 through June 30, 1998, for periods of enrollment beginning on or after the earlier such date, bear interest, subject to the next succeeding sentence, at the 91-Day T-Bill Rate plus 3.1 percent, not to exceed 8.25 percent. Stafford Loans first disbursed during the period from July 1, 1995 through June 30, 1998, for periods of enrollment beginning on or after the earlier such date, prior to repayment and during any grace period or deferment period, bear interest at the 91-Day T-Bill Rate plus 2.5 percent, not to exceed 8.25 percent. Stafford Loans first disbursed during the period from July 1, 1998 through June 30, 2003 bear interest, during the in-school and grace periods, at the 91-Day T-Bill Rate plus 1.7 percent, and otherwise at the 91-Day T-Bill Rate plus 2.3 percent, not to exceed 8.25 percent. See “Legislative and Administrative Matters — *Certain Recent Developments*” above.

Loan Limits. From January 1, 1987 through September 30, 1993, undergraduates were able to borrow up to \$2,625 annually through the completion of the second year of instruction and, prior to July 1, 1993, \$4,000 annually through the remainder of undergraduate study pursuant to Stafford Loans. Stafford Loans for which the first disbursement was made prior to July 1, 1993 are subject to an aggregate limit of \$17,250 for undergraduate study, while graduate or professional students, who may borrow up to \$7,500 annually, are subject to an aggregate limit of \$54,750, inclusive of loans for undergraduate study. The annual loan limit for undergraduate loans first disbursed on or after July 1, 1993 is dependent on the class year of the borrower and the length of the academic year, and ranges from a minimum annual limit of \$2,625 for first year undergraduate borrowers to a maximum annual limit of \$5,500 for undergraduate borrowers. The annual loan limit for graduate and professional loans for periods of enrollment beginning on or after October 1, 1993 is \$8,500. Loans for which the first disbursement is made on or after July 1, 1993, are subject to an aggregate limit of \$23,000 for undergraduate students and an aggregate limit of \$65,500 for graduate or professional students, excluding PLUS Loans and SLS Loans. Notwithstanding the foregoing limits, however, additional Unsubsidized Stafford Loans are currently available to independent, and to certain dependent, undergraduate students, in annual amounts up to \$5,000, and to graduate and professional students, in annual amounts up to \$10,000, subject to overall limits on any borrower’s aggregate outstanding Stafford Loans, Unsubsidized Stafford Loans, analogous loans made under the Federal Direct Student Loan Program and SLS Loans of \$46,000, for undergraduate students, and of \$138,500, for graduate or professional students. Under the 1998 Amendments, additional Unsubsidized Stafford Loan limits were established with respect to non-degree course work in the amounts of \$4,000, in connection with such course work necessary for admission to a degree granting undergraduate program, and \$5,000, in connection with such course work necessary for admission to a degree granting graduate or teaching program or to establish teaching credentials. In addition, the 1998 Amendments provide for the proration of annual Unsubsidized Stafford Loan limits with respect to programs of less than one year. The Secretary has discretion to raise these limits to accommodate highly specialized or exceptionally expensive courses of study. Effective July 1, 1996, aggregate loan limits for Subsidized and Unsubsidized Stafford

Loans were raised to \$189,125 for students pursuing degrees in the health professions field, subject to subsequent regulatory modification.

Repayment. Generally, repayment of principal on a Stafford Loan does not commence while a student remains a Qualified Student, but begins upon expiration of the applicable Grace Period, as described below. Such Grace Periods may be waived by borrowers. The Higher Education Act currently requires minimum annual payments of \$600, including principal and interest, unless the borrower and the lender agree to lesser payments. The Higher Education Act currently requires lenders to offer and to allow the borrower to select among the following repayment plans: (i) a standard repayment plan with fixed payments scheduled over a period of not more than 10 years; (ii) a graduated repayment plan with graduated payments scheduled over a period of not more than 10 years; (iii) an income-sensitive plan with income-sensitive payments that are not less than the amount of interest due scheduled over a period of not more than 10 years; and (iv) with respect to first-time borrowers after October 1, 1998 with loan amounts in excess of \$30,000, an extended repayment plan with fixed or graduated payments scheduled over a period of not to exceed 25 years. The Higher Education Act further requires that lenders notify all borrowers of the availability of income-sensitive repayment through loan consolidation and permits student borrowers to change repayment plans annually.

Grace Periods, Deferment Periods, Forbearance Periods. Repayment of principal on a Stafford Loan must generally commence following a period of (a) not less than 9 months or more than 12 months (with respect to loans for which the applicable interest rate is 7 percent per annum), and (b) not more than 6 months (with respect to loans for which the applicable interest rate is 9 percent per annum or 8 percent per annum and for loans to first time borrowers on or after July 1, 1988), after the borrower ceases to pursue at least a half-time course of study (each a “Grace Period”). The 1998 Amendments provide that such 6-month period shall exclude any period not in excess of 3 years during which a borrower who is a member of a reserve component of the Armed Forces is called or ordered to active duty for a period of more than 30 days, including the period necessary to resume enrollment at the borrower’s next available regular enrollment period. However, during certain other periods and subject to certain conditions, no principal repayments need be made, including periods when: (i) the student has returned to an eligible educational institution or is pursuing studies pursuant to an approved graduate fellowship program; (ii) a member of the Armed Forces or a volunteer under the Peace Corps Act or the Domestic Volunteer Service Act of 1973; (iii) the borrower is at least a half-time student; (iv) when the borrower is temporarily totally disabled; (v) during which the borrower is unable to secure employment by reason of the care required by a dependent who is so disabled; (vi) when the borrower is on parental leave to care for a newborn child or newly-adopted child, or is the mother of a pre-school child and is trying to re-enter the work force; or (vii) certain other periods of unemployment, economic hardship and qualified internships (each a “Deferment Period”). For new borrowers to whom loans are first disbursed on or after July 1, 1993, payment of principal may be deferred only while the borrower: (i) is at least a half-time student, is in an approved graduate fellowship program or is enrolled in a rehabilitation program; or (ii) subject in each instance to a maximum deferment of three years, when the borrower is seeking but unable to find full-time employment or when the lender determines, in accordance with regulations promulgated by the Secretary, that payment of principal will cause the borrower economic hardship. Lenders must allow periods of forbearance upon written request, renewable at twelve-month intervals, on terms agreed to in writing by parties to the loan: (i) during the borrower’s participation in certain medical or dental internships or residency programs; (ii) during periods not in excess of three years in which the borrower’s student loan debt burden equals or exceeds 20 percent of gross income; and (iii) during periods in which the borrower is serving in a national service position for which the borrower receives a national service educational award under the National and Community Service Trust Act of 1993; and may also grant administrative forbearance for periods not exceeding 60 days (each, a “Forbearance Period”).

Interest Subsidy Payments on Subsidized Stafford Loans

The Secretary is responsible for making Interest Subsidy Payments to holders of Subsidized Stafford Loans while the borrower is a Qualified Student, during certain Grace Periods or during any Deferment Period. The Secretary makes quarterly Interest Subsidy Payments in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any Deferment Period. The Higher Education Act provides that the owner of an eligible Subsidized Stafford Loan shall be deemed to have a contractual right against the United States to receive Interest Subsidy Payments in accordance with its provisions. Receipt of Interest Subsidy Payments is conditioned on the eligibility of the loan for insurance or reinsurance benefits. Such eligibility may be lost if the requirements of the federal government and the guaranty agency relating to the servicing and collection of the loans are not met.

Unsubsidized Stafford Loans

The 1992 Amendments created the Unsubsidized Stafford Loan program designed for students who do not qualify for Subsidized Stafford Loans due to parental and/or student income and assets in excess of permitted amounts, or who need additional loans to supplement their Subsidized Stafford Loans. Annual loan limits are as described under “Stafford Loans Generally — *Loan Limits*” above. In other respects, the general requirements for Unsubsidized Stafford Loans are essentially the same as those for Subsidized Stafford Loans. The interest rate and the Special Allowance Payment provisions of the Unsubsidized Stafford Loans are the same as those of the Subsidized Stafford Loans. However, the terms of the Unsubsidized Stafford Loans differ materially from Subsidized Stafford Loans in that the federal government will not make Interest Subsidy Payments and the loan limitations are determined without respect to the expected family contribution. The borrower is required to pay interest from the time such loan is disbursed or capitalize the interest until repayment begins.

The amount of periodic payments and the repayment schedule for an Unsubsidized Stafford Loan are established by assuming an interest rate equal to the applicable rate of interest at the time the repayment of the loan principal commences. At the option of the lender, the note or other written evidence of the loan may require that the amount of the periodic payment be adjusted annually or the period of repayment of principal be lengthened or shortened in order to reflect adjustments in interest rates.

PLUS and SLS Loan Programs

The Higher Education Act authorizes PLUS Loans to be made to parents of eligible dependent students and, prior to July 1, 1994, authorized SLS Loans to be made to certain categories of students. Only parents who do not have an adverse credit history are eligible for PLUS Loans originated after July 1, 1993. Commencing July 1, 1994, the SLS Loan program has been replaced by the Unsubsidized Stafford Loan program, with annual loan limits in the merged program equal to the combined limits of the two programs prior to the merger. The basic provisions applicable to PLUS and SLS Loans are similar to those of Stafford Loans with respect to the federal insurance and reinsurance on the loans. However, PLUS Loans and SLS Loans differ from Subsidized Stafford Loans, particularly because borrowers need not demonstrate Unmet Need to qualify for PLUS or SLS Loans and because Interest Subsidy Payments are not available and Special Allowance Payments are more restricted under the PLUS and SLS Programs.

Loan Limits. SLS Loan limits for loans disbursed during the period from July 1, 1993 through July 1, 1994 depend upon the class year of the student and the length of the academic year. The annual loan limit for SLS Loans first disbursed during such period ranges from \$4,000 for first and second year undergraduate borrowers to \$10,000 for graduate borrowers, with a maximum aggregate amount of \$23,000 for undergraduate borrowers, and \$73,000 for graduate and professional borrowers. The only limit on the annual and aggregate amounts of PLUS Loans first disbursed on or after July 1, 1993 is the cost of the student’s education less other financial aid received, including scholarship, grants and other student loans. PLUS Loans and SLS Loans disbursed during the period from October 17, 1986 through July 1, 1993 were limited to \$4,000 per academic year with a maximum aggregate amount of \$20,000. The applicable loan limits with respect to PLUS Loans and SLS Loans disbursed prior to October 17, 1986 were \$3,000 annually and \$15,000 in aggregate.

Interest. Interest rates on PLUS Loans and SLS Loans depend upon the date of issuance of the loan and the period of enrollment. For PLUS Loans issued on or after October 1, 1981, for periods of educational enrollment beginning prior to July 1, 1987, the applicable rate of interest is either 12 percent or 14 percent per annum. A variable interest rate applies to PLUS Loans and SLS Loans made and disbursed on or after July 1, 1987, or made to refinance fixed-rate PLUS Loans. The variable interest rate for PLUS Loans and SLS Loans made and disbursed during the period from July 1, 1987 through September 30, 1992 is reset each July 1 and is effective through June 30 of the following year, at the bond equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to the June 1 preceding the applicable 12-month period, plus 3.25 percent, with a maximum rate of 12 percent per annum. The variable interest rate for PLUS Loans and SLS Loans first disbursed during the period from October 1, 1992 through June 30, 1994 is based on the same bond equivalent rate of 52-week Treasury bills as PLUS Loans and SLS Loans disbursed prior to October 1, 1992, except that 3.10 percent is added to the bond equivalent rate of 52-week Treasury bills auctioned prior to the applicable period, with a maximum rate of 11 percent per annum for SLS Loans, and a maximum rate of 10 percent per annum for PLUS Loans. The maximum rate applicable to PLUS Loans disbursed during the period from July 1, 1994 through June 30, 1998 is 9 percent per annum. PLUS Loans made during the period from July 1, 1998 through June 30, 2003 bear interest at a rate equivalent to the 91-Day T-Bill Rate plus 3.1 percent, with a maximum rate of 9 percent. Special Allowance Payments are available on variable rate PLUS Loans and SLS Loans only if, at the time of computation, the rate determined by the formula above would exceed the applicable allowed maximum described above.

Repayment, Deferrals. SLS borrowers have the option to defer commencement of repayment of principal until the commencement of repayment of Subsidized Stafford Loans. Otherwise, repayment of principal of PLUS Loans and SLS Loans is required to commence no later than 60 days after the date of disbursement of such loan, subject to certain deferral provisions. The deferral provisions that apply to PLUS Loans are more limited than those that apply to Subsidized Stafford Loans. Repayment of principal, however, may be deferred during certain periods specified under the Higher Education Act. Further, although Interest Subsidy Payments are not available for such deferments, interest may be capitalized during such periods upon agreement of the lender and borrower. Maximum loan repayment periods and minimum payment amounts are the same as for Stafford Loans.

A borrower may refinance all outstanding PLUS Loans or SLS Loans under a single repayment schedule for principal and interest, with the new repayment period calculated from the date of repayment of the most recent included loan. The interest rate of such refinanced loan shall be the weighted average of the rates of all loans being refinanced. A second type of refinancing enables an eligible lender to reissue a PLUS Loan or SLS Loan that was initially originated at a fixed rate prior to July 1, 1987 in order to permit the borrower to obtain the variable interest rate available on PLUS Loans or SLS Loans on and after July 1, 1987. If a lender is unwilling to refinance the original PLUS Loan or SLS Loan, the borrower may obtain a loan from another lender for the purpose of discharging the loan and obtaining a variable interest rate.

The Consolidation Loan Program

The Higher Education Act authorizes a program under which certain borrowers may consolidate their various federal education loans into a single FFEL Consolidated Loan insured and reinsured on a basis similar to that for Stafford Loans. FFEL Consolidation Loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on all federally insured or reinsured FFELP Loans selected by the borrower, as well as loans made pursuant to various other student loan programs, including the Federal Direct Student Loan Program, and which may have been made by different lenders. Under this program, a lender may make a FFEL Consolidation Loan to an eligible borrower at the request of the borrower if the lender holds an outstanding loan of the borrower, if the borrower certifies that he has been unable to obtain a FFEL Consolidation Loan with income-sensitive terms from the holders of the outstanding loans made to the borrower or if the borrower has multiple FFELP Loans with different holders.

FFEL Consolidation Loans are available to borrowers in repayment status or in a Grace Period preceding repayment. For applications received prior to January 1, 1993, the borrower must not be delinquent by more than 90 days on any student loan payment. For applications received on or after January 1, 1993, delinquent or defaulted borrowers are eligible to obtain FFEL Consolidation Loans if they have made arrangements to repay the defaulted loan which are satisfactory to the holder. For applications received on or after January 1, 1993, married couples

who agree to be jointly and severally liable will be treated as one borrower for purposes of loan consolidation eligibility.

FFEL Consolidation Loans for which the application was received before November 13, 1997 bear interest at a rate equivalent to the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest whole percentage; for such FFEL Consolidation Loans originated prior to July 1, 1994 a minimum rate of 9 percent applies. FFEL Consolidation Loans for which the application was received during the period from November 13, 1997 through September 30, 1998 bear interest at a rate equivalent to the 91-Day T-Bill Rate plus 3.1 percent, with a maximum rate of 8.25 percent. FFEL Consolidation Loans for which the application is received during the period from October 1, 1998 through June 30, 2003 bear interest at a rate equivalent to the weighted average of the interest rates on the loans consolidated, rounded upwards to the nearest one-eighth of 1 percent, with a maximum rate of 8.25 percent. The repayment schedules for FFEL Consolidation Loans will not exceed: 10 years for loans less than \$7,500; 12 years for loans greater than or equal to \$7,500, but less than \$10,000; 15 years for loans greater than or equal to \$10,000, but less than \$20,000; 20 years for loans greater than or equal to \$20,000, but less than \$40,000; 25 years for loans greater than or equal to \$40,000, but less than \$60,000; and not more than 30 years for loans equal to or in excess of \$60,000. The Secretary makes Interest Subsidy Payments on FFEL Consolidation Loans: (i) for which applications were received during the period from January 1, 1993 through August 9, 1993; (ii) which consolidate only Subsidized Stafford Loans and for which applications were received by lenders during the period from August 10, 1993 through November 12, 1997; and (iii) for which applications are received during the period from November 13, 1997 through September 30, 2004, with respect to that portion of a FFEL Consolidation Loan which repays Subsidized Stafford Loans. For applications received on or after January 1, 1993, the borrower is eligible for certain deferments of principal and interest payments for periods similar to those for Subsidized Stafford Loans, and, subject to the foregoing, Interest Subsidy Payments are made to the eligible holder during such periods. Deferred interest payments for which Interest Subsidy Payments are not available are capitalized. Borrowers may elect to accelerate principal payments without penalty. Further, no insurance premium may be charged to a borrower and no insurance premium may be charged to a lender in connection with a FFEL Consolidation Loan. However, a fee may be charged to the lender by the guaranty agency to cover the costs of increased or extended liability with respect to a FFEL Consolidation Loan. Holders of FFEL Consolidation Loans which were first disbursed during the periods from October 1, 1993 through September 30, 1998 and from February 1, 1999 through September 30, 2004 are required to make monthly rebate payments to the Secretary calculated on an annual basis equal to 1.05 percent of the principal plus accrued interest on such loans. Holders of FFEL Consolidation Loans which were first disbursed during the period from October 1, 1998 through January 31, 1999 are required to make such rebate payments calculated on an annual basis equal to .62 percent of the principal plus accrued interest on such loans.

Repayment of Consolidation Loans begins 60 days after discharge of all prior loans that are consolidated. Repayment schedule options must include, for applications received on or after January 1, 1993, the establishment of graduated and income sensitive repayment plans, subject to certain limits applicable to the sum of the Consolidation Loan and the amount of the borrower's other eligible student loans outstanding. The lender may, at its option, include such graduated and income sensitive repayment plans for applications received prior to that date. All eligible loans of a borrower selected for consolidation are discharged in the consolidation process and a new loan is issued.

Special Allowance Payments

The Higher Education Act provides for Special Allowance Payments to be made by the Secretary to eligible lenders holding FFELP Loans. The rates for Special Allowance Payments are based on formulas that differ according to the type of loan (Stafford Loan, PLUS Loan, SLS Loan or Consolidation Loan), the date the loan was originally made or insured and the type of funding used by the holder to finance such loan (tax-exempt or taxable). Generally, the sum of the stated interest on the loan and the applicable Special Allowance Payment for a quarter will be a statutorily specified number of percentage points (the "SAP Spread") above the 91-Day T-Bill Rate for that quarter, with respect to loans first disbursed on or prior to December 31, 1999, and above the CP Rate, with respect to loans first disbursed during the period from January 1, 2000 through June 30, 2003.

The SAP Spread applicable to FFELP Loans originated prior to October 1, 1992 was 3.5 or 3.25 percent. The SAP Spread applicable to 427A Loans is 3.25 percent. The SAP Spread applicable to Stafford Loans originated: (i) during the period from October 1, 1992 through June 30, 1995 is 3.1 percent; (ii) during the period from July 1, 1995 through June 30, 1998, during in-school periods and Grace and Deferment Periods, is 2.5 percent, and, otherwise, is 3.1 percent; (iii) during the period from July 1, 1998 through December 31, 1999, for in-school periods and Grace and Deferment Periods, is 2.2 percent and, otherwise, is 2.8 percent; and (iv) during the period from January 1, 2000 through June 30, 2003, for in-school periods and Grace and Deferment Periods, is 1.74 percent and, otherwise, is 2.34 percent. The SAP Spread applicable to PLUS and SLS Loans originated: (i) during the period from October 1, 1992 through December 31, 1999 is 3.1 percent; and (ii) during the period from January 1, 2000 through June 30, 2003 is 2.64 percent. The SAP Spread applicable to FFEL Consolidation Loans originated: (i) during the period from October 1, 1992 through December 31, 1999 is 3.1 percent; and (ii) during the period from January 1, 2000 through June 30, 2003 is 2.64 percent.

Special Allowance Payments are generally payable, with respect to variable rate FFELP Loans to which a maximum borrower interest rate applies, only when such maximum rate is in effect. See “Legislative and Administrative Matters — *Certain Recent Developments*.” The rate of Special Allowance Payments is subject to reduction by the amount of certain origination fees charged to borrowers and may be reduced as a result of certain federal budget deficit reduction measures. Notwithstanding the foregoing, Special Allowance Payments applicable to certain loans made or purchased with funds obtained from the issuance of tax-exempt obligations which were originally issued prior to October 1, 1993, are reduced by one-half, subject to certain minimums provided in the Higher Education Act. These minimum Special Allowance Payment rates effectively insure an overall minimum return of 9.5 percent on such loans. No Bonds were initially issued prior to October 1, 1993. The Secretary is required, however, to reduce the total amount of Interest Subsidy Payments and Special Allowance Payments with respect to any loan for which the first disbursement was made on or after October 1, 1993 by an amount equivalent to .50 percent of the principal amount of such loan.

The Higher Education Act provides that a holder of a qualifying loan who is entitled to receive Special Allowance Payments has a contractual right against the United States, during the life of the loan, to receive those Special Allowance Payments. Receipt of Special Allowance Payments, however, is conditioned on the eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of the federal or guaranty agency regulations specifying servicing and collection of the loan in the event of delinquency.

Federal Insurance and Reinsurance and Reimbursement of Guaranty Agencies

A loan made under the Federal Family Education Loan Program is considered to be in default for purposes of the Higher Education Act when the borrower fails to make an installment payment when due, or to comply with other terms of the loan, and if the failure persists for 270 days beyond the payment due date, in the case of a loan repayable in monthly installments, or for 330 days beyond the payment due date, in the case of a loan repayable in less frequent installments. FFELP Loans which became delinquent prior to October 1, 1998 were considered in default if after 180 days, in the case of a loan repayable in monthly installments, or after 240 days, in the case of a loan repayable in less frequent installments.

If the loan in default is covered by federal loan insurance in accordance with the provisions of the Higher Education Act, the Secretary is to pay the insurance beneficiary the amount of the loss sustained thereby, upon notice and determination of such amount, within 90 days of such notification, subject to reduction as described below.

The Higher Education Act provides that, subject to compliance with the Higher Education Act, the full faith and credit of the United States is pledged to the payment of insurance claims. It further provides that guaranty agencies shall be deemed to have a contractual right against the United States to receive reinsurance in accordance with its provisions. Federal reinsurance and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary is authorized, to the extent provided in advance by appropriations acts, to issue obligations to the Secretary of the Treasury to provide funds to make such federal payments. In addition, the Higher Education Act provides that if the Secretary determines that a guaranty agency is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new guaranty agency capable of meeting such

obligations or until a successor guaranty agency assumes such obligations and further provide that the Secretary will pay to holders the full insurance obligations of such guaranty agency, in accordance with requirements which are no more stringent than those of such guaranty agency. There can be no assurance, however, that the Secretary will ever make such a determination or will do so in a timely manner. The Higher Education Act also provides that the Secretary is authorized, on terms and conditions satisfactory to the Secretary, to make advances to a guaranty agency in order to assist the guaranty agency in meeting its immediate cash needs and to ensure uninterrupted payment of default claims by lenders.

If the loan is guaranteed by a guaranty agency, the eligible lender is reimbursed by the guaranty agency pursuant to agreements for guarantee. Such agreements typically provide for reimbursement of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the eligible lender has properly serviced such loan. Pursuant to most agreements for guarantee between a guaranty agency and the originator of the loan, any eligible holder of a loan insured by such guaranty agency is entitled, subject to the preceding sentence, to reimbursement from such guaranty agency for 98 percent of any proven loss incurred with respect to defaulted claims and 100 percent of any proven loss incurred with respect to claims relative to certain lender-of-last-resort-loans or claims resulting from bankruptcy, death, disability, false certification or school closure.

A holder of a loan is required to exercise due care and diligence in the servicing of the loan and to utilize practices that are at least as extensive and forceful as those utilized by financial institutions in the collection of other consumer loans. If a guaranty agency has probable cause to believe that the holder has made misrepresentations or failed to comply with the terms of its agreement for guarantee, the guaranty agency may take reasonable action including withholding of payments or requiring reimbursement of funds. The guaranty agency may also terminate the agreement for cause upon notice and hearing. Holders are required to request preclaims assistance from the guaranty agency in order to attempt to cure the delinquency. Holders may submit claims to the guaranty agency with respect to loans which default. At the time of payment of insurance benefits, the holder must assign to the guaranty agency all rights accruing to the holder under the note evidencing the loan.

Under the Higher Education Act, the Secretary enters into a guaranty agreement and an annually renewable supplemental guaranty agreement with each guaranty agency which provides for federal reinsurance for amounts paid to eligible lenders by the guaranty agency with respect to defaulted loans. Pursuant to such agreements, the Secretary is to reimburse a guaranty agency for a percentage of default losses and for 100 percent of the amounts expended in connection with a claim with respect to loans made under a qualifying lender-of-last-resort program or a claim resulting from the death, discharge in bankruptcy, or total and permanent disability of a borrower, the death of a student whose parent is the borrower of a PLUS Loan, or claims by borrowers who are unable to complete the programs in which they are enrolled due to school closure or whose borrowing eligibility was falsely certified by the eligible institution. Such claims are not included in calculating a guaranty agency's claims rate experience for purposes of reducing federal reinsurance payments received by guaranty agencies as described in the following paragraphs.

Guaranty agencies are required to satisfy due diligence requirements prescribed by regulations with respect to defaulted loans. The Secretary may require repayment of reinsurance payments, and may require other remedial action, including the withholding of payments, imposition of fines and suspension or termination of agreements, in response to a guaranty agency's failure to comply with applicable regulations.

Under the Higher Education Act, reimbursement by the Secretary of a guaranty agency for any amounts paid to satisfy claims with respect to loans which are not made under a qualified lender-of-last-resort program and which do not result from death, bankruptcy, disability, school closure or false certification is subject to reduction as described in the following paragraphs.

The original principal amount of loans guaranteed by a guaranty agency that are in repayment for purposes of computing reimbursement payments to a guaranty agency means the original principal amount of all loans guaranteed by a guaranty agency less: (i) guarantee payments on such loans; (ii) the original principal amount of such loans which have been fully repaid; and (iii) the original amount of such loans for which the first principal installment payment has not become due.

The amount of such insurance or reinsurance payments is subject to reduction based upon the annual claims rate of the guaranty agency, calculated to equal the amount of federal reinsurance as a percentage of the original principal amount of guaranteed loans in repayment on the last day of the prior fiscal year. The formula generally applicable under the 1998 Amendments is as follows:

<u>Claims Rate</u>	<u>Federal Payment</u>
0 percent up to 5 percent	95 percent of claim amounts
5 percent up to 9 percent	95 percent of claims up to 5 percent, 85 percent of claims of 5 percent and over
9 percent and over	95 percent of claims up to 5 percent, 85 percent of claims of 5 percent to 9 percent, and 75 percent of claims of 9 percent and over

The claims experience is not accumulated from year to year, but is determined solely on the basis of claims in any one federal fiscal year compared with the original principal amount of loans in repayment at the end of the prior federal fiscal year.

Notwithstanding the foregoing the Secretary will reimburse a guaranty agency: (i) with respect to loans which are transferred from an insolvent guaranty agency pursuant to a plan approved by the Secretary at rates which are equivalent to those set forth above plus 5 percent; and (ii) with respect to loans made pursuant to a qualifying lender-of-last-resort program at a rate of 100 percent of claim amounts.

The 1998 Amendments authorized the retention by guaranty agencies for general operating purposes of default aversion fees equivalent to 1 percent of the total unpaid principal and accrued interest on FFELP Loans on which a claim for default has not been paid as a result of the loan being brought into current repayment status by the guaranty agency on or before the 300th day after the loan becomes 60 days delinquent. The 1998 Amendments further authorized the payment to guaranty agencies of loan processing and issuance fees of .65 percent, with respect to FFELP Loans originated during the period from October 1, 1998 through September 30, 2003, and of .40 percent, thereafter.

Guaranty agencies are required to maintain specific reserve fund levels. If the agency fails to achieve the minimum reserve level in any of two consecutive years, if the agency's federal reimbursements are reduced to 85 percent or if the Secretary determines the agency's administrative or financial condition jeopardizes its continued ability to perform its responsibilities, the Secretary may require the agency to submit and implement a management plan to address the deficiencies. The Secretary may terminate the agency's agreements with the Secretary if the agency fails to submit the required plan, or fails to improve its administrative or financial condition substantially, or if the Secretary determines the agency is in danger of financial collapse. In such event, the Secretary is authorized to undertake specified actions to assure the continued payment of claims, including the transfer of guarantees to another agency, or transfer of guarantees to the Department itself.

The Higher Education Act contains provisions to the effect that, notwithstanding any other provision of law, a substantial portion of the reserve funds of the guaranty agencies, and any assets purchased with such portion of such reserve funds, regardless of who holds or controls the reserves or assets, are the property of the United States, to be used in the operation of the FFEL Program or as otherwise provided by federal legislation. Such portion of such reserves will be required to be maintained by each guaranty agency to pay lender claims, to fund default aversion fees and, subject to certain restrictions, to fund guaranty agency operating costs on a no-interest loan basis. The Higher Education Act grants the Secretary broad powers over the administration and application of such portion of such reserves and, under certain conditions, of all guaranty agency reserves.

The Higher Education Act allows the Secretary to terminate a guaranty agency's agreement if the Secretary determines that termination is necessary to protect the federal financial interest, to ensure the continued availability of loans to student or parent borrowers, or to ensure an orderly transition from the FFEL Program to the Federal Direct Student Loan Program. The Secretary is authorized to provide the guaranty agency with additional advance funds with such restrictions on the use of such funds as are determined appropriate by the Secretary in order to meet

the immediate cash needs of the guaranty agency, ensure the uninterrupted payment of claims, or ensure that the guaranty agency will make loans as the lender-of-last-resort.

The Higher Education Act provides that if the Secretary has terminated or is seeking to terminate a guaranty agency's agreement, or has assumed a guaranty agency's functions, notwithstanding any other provision of law: (i) no state court may issue an order affecting the Secretary's action with respect to that guaranty agency; (ii) any contract entered into by the guaranty agency with respect to the administration of the agency's reserve funds or assets acquired with reserve funds shall provide that the contract is terminable by the Secretary upon 30 days' notice to the contracting parties if the Secretary determines that such contract includes an impermissible transfer of funds or assets or is inconsistent with the terms or purposes of this law; and (iii) no provision of state law shall apply to the actions of the Secretary in terminating the operations of the guaranty agency. Finally, notwithstanding any other provision of law, the 1993 Amendments provide that the Secretary's liability for any outstanding liabilities of a guaranty agency (other than outstanding student loan guarantees under Part D of Title IV of the Higher Education Act) the functions of which the Secretary has assumed, shall not exceed the fair market value of the reserves of the guaranty agency, minus any necessary liquidation or other administrative costs.

The Balanced Budget Act of 1997 (Pub. L. 105-33) (the "Balanced Budget Act") required the Secretary to recall \$1 billion in reserve funds from guaranty agencies on September 1, 2002. The 1998 Amendments required the Secretary to recall an additional \$250 million in reserve funds from guaranty agencies by federal fiscal year 2007. Each of the Balanced Budget Act and the 1998 Amendments contained detailed provisions as to the allocation of amounts to be so recalled among guaranty agencies. In addition, the 1998 Amendments required the Secretary to transfer all funds in the Student Loan Insurance Fund as of October 7, 1998 to the Treasury. There can be no assurance that future legislation will not require the recall and transfer of substantially all federal funds, including the federal portion of guaranty agency reserve funds, which are immediately available to fund guaranty agency and federal payment obligations arising in connection with the FFEL Program.

Education Loans Generally Not Subject to Discharge in Bankruptcy

Under the United States Bankruptcy Code, education loans are not generally dischargeable. Title 11 of the United States Code at Section 523(a)(8) provides, with respect to cases initiated on or after October 7, 1998, as follows:

(a) A discharge under Section 727, 1141, 1228(a), 1228(b), or 1328(b) of this title does not discharge an individual debtor from any debt -

(8) for an educational benefit overpayment or loan made, insured or guaranteed by a governmental unit, or made under any program funded in whole or in part by a governmental unit or nonprofit institution, or for an obligation to repay funds received as an educational benefit, scholarship or stipend, unless excepting such debt from discharge under this paragraph will impose an undue hardship on the debtor and the debtor's dependents.

Servicer Provisions and Third-Party Servicer Requirements

On April 29, 1994, the Department published regulations amending the Student Assistance General Provisions and FFEL Program regulations which, among other things, establish requirements governing contracts between holders of FFELP Loans and third-party servicers, establish standards of administrative and financial responsibility for third-party servicers that administer any aspect of a guaranty agency's or lender's participation in the FFEL Program, and establish sanctions for third-party servicers.

Under these regulations, a third-party servicer is jointly and severally liable with its client lenders, guaranty agencies and educational institutions, as applicable, for liability to the Department arising from the servicer's violation of applicable requirements. In addition, if a servicer fails to meet standards of financial responsibility or administrative capability included in the new regulations, or violates other FFEL Program requirements, the new regulations authorize the Department to fine the servicer or limit, suspend, or terminate the servicer's eligibility to contract to service Student Loans. The effect of such a limitation, suspension, or termination on a servicer's

eligibility to service loans already on its system, or to accept new loans for servicing under existing contracts, is unclear. No assurance exists that the Corporation will not be held liable by the Department for liabilities arising out of its FFEL Program activities for the Corporation or other client lenders, or that its eligibility will not be limited, suspended, or terminated in the future. If the Corporation were so held liable or its eligibility limited, suspended, or terminated, its ability to properly service Student Loans and to satisfy its obligations with respect thereto may be adversely affected.

The 1998 Amendments provide that an eligible lender or guaranty agency that contracts with another entity to perform any of its functions with respect to the FFEL Program or otherwise delegates the performance of such functions shall not be relieved of its duty to comply with the requirements of the Higher Education Act and shall monitor the activities of such other entity for compliance with such requirements.

Loan Origination and Servicing Procedures Applicable to Student Loans

The Higher Education Act, including the implementing regulations thereunder, imposes specified requirements, guidelines and procedures with respect to originating and servicing FFELP Loans. Generally, those procedures require that completed loan applications be processed, a determination of whether an applicant is an eligible borrower under applicable standards be made, the borrower's responsibilities under the loan be explained to him or her, the promissory note evidencing the loan be executed by the borrower and then that the loan proceeds be disbursed in a specified manner by the lender. After the loan is made, the lender must establish repayment terms with the borrower, properly administer deferrals and forbearance and credit the borrower for payments made thereon. If a borrower becomes delinquent in repaying a loan, a lender or a servicing agent must perform certain collection procedures (primarily telephone calls and demand letters) which vary depending upon the length of time a loan is delinquent. Numerous federal and state consumer protection laws and related regulations impose substantial requirements upon lenders and servicers involved in consumer finance. Also, some state laws impose finance charge ceilings and other restrictions on certain consumer transactions and require contract disclosures in addition to those required under federal law. These requirements impose specific statutory liabilities upon lenders who fail to comply with their provisions. In certain circumstances, the Corporation may be liable for certain violations of consumer protection laws that apply to the Financed Student Loans, either as assignee or as the party directly responsible for obligations arising after the transfer.

Federal Direct Student Loan Program

Under the Federal Direct Student Loan Program (the "FDSL Program") established by the 1993 Amendments, a variety of direct federal loans with terms and conditions generally similar to those available under the FFEL Program may be obtained by students, or parents of students, attending participating Institutions of Higher Education ("IHE") through the applicable IHE or through an alternative originator designated by the Secretary, without application to an outside lender. The FDSL Program is to be funded and administered by the Secretary. The FDSL Program provides for a variety of repayment plans from which borrowers may choose, including repayment plans based on income. In addition, if a borrower is unable to obtain a Consolidation Loan with income sensitive repayment terms acceptable to the borrower from the holders of the borrower's outstanding FFELP Loans (that are selected for consolidation), or from any other lender, including the Student Loan Marketing Association, the 1993 Amendments authorize the Secretary to offer the borrower a consolidation loan with income sensitive terms under the FDSL Program.

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Appendix B

Summary of Certain Provisions of the Resolutions

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**SUMMARY OF CERTAIN PROVISIONS
OF THE RESOLUTIONS**

The Resolutions contain various covenants and security provisions, certain of which are summarized below and not otherwise deemed or discussed in this Official Statement. Reference should be made to the Resolutions for a full and complete statement of their provisions. The Resolutions may be modified by the provisions of Series Resolutions.

Definitions. In the Resolutions, the following words and terms (unless the context otherwise requires) are defined as follows:

“Account” means any of the special trust accounts created and established by, or pursuant to, the Resolutions.

“Accountant” or “Auditor” means any independent certified public accountant, or a firm of those accountants, duly licensed to practice and practicing as such under the laws of the Commonwealth, selected by the Corporation, who is independent and not under the domination or control of the Corporation and who does not have any substantial interest, direct or indirect, in the Corporation, but who may be regularly retained to make annual or similar audits of the books or records of the Corporation.

“Act” means Sections 164A.010 to 164A.230, inclusive, of the Kentucky Revised Statutes, as heretofore or hereafter amended.

“Additional Obligations” means any Obligations other than the initial two Series of Obligations which shall be authenticated and delivered on original issuance pursuant to the Resolutions or thereafter authenticated or delivered in lieu of or in substitution for any such Obligation pursuant to the Resolutions.

“Agent Member” means a member of, or participant in, the Securities Depository.

“Applicable Law” means: (i) with respect to Student Loans originated pursuant to the Federal Family Education Loan Program, the Act and the Higher Education Act; and (ii) with respect to any other Student Loans, the Act, any other state or federal law applicable thereto or any regulation promulgated thereunder.

“Auction Rate Securities” means any Subseries of the Series 2001A Bonds bearing interest at an Auction Rate and any Series 2001B Bonds bearing interest at an Auction Rate.

“Authorized Officer” means the Chairman, Secretary-Treasurer, Executive Director, Chief Executive Officer or Chief Financial Officer of the Corporation, and any other of its directors, officers, agents or employees duly authorized by the by-laws or by a resolution of the Corporation to perform the act or sign the document in question.

“Bonds” means debt obligations of the Corporation, whether or not so designated, other than Notes or Other Obligations, issued to finance or refinance the making or purchase of Student Loans by the Corporation pursuant to the Resolutions, which mature no later than thirty years from the date of original issuance of such Bonds.

“Business Day” means, with respect to each Series of Obligations, any day on which banks located in none of: (i) the Commonwealth of Kentucky; (ii) the city in which the principal corporate trust office of each Fiduciary applicable to such Series of Obligations; (iii) the city in which the principal offices of the Corporation; and (iv) the city in which the principal offices of each Obligation Facility Provider applicable to such Series are located are required or authorized by law to remain closed and on which the New York Stock Exchange is not closed, except as otherwise provided with respect to any Series by the Series Resolution authorizing such Series.

“Carry-over Amount” means, with respect to any Series of Bonds or Notes, the amount, if any, so described in the applicable Series Resolution authorizing such Series, and, with respect to any Subseries of the Series 2001A Bonds for any Interest Period, means the excess, if any, of (a) the amount of interest on any Subseries of a Series 2001A Bond that would have accrued thereon during such Interest Period had interest been calculated without regard to the Net Loan Rate interest rate limitation described in the Series Resolution over (b) the amount of interest on any Subseries of such Series 2001A Bond calculated with respect to such Interest Period based on the Net Loan Rate, together with the unpaid portion of any such excess from prior Interest Periods; provided that any reference to “principal” or “interest” in the Resolutions or in any Subseries of the Series 2001A Bonds shall not include within the meanings of such words any Carry-over Amount or any interest accrued on any Carry-over Amount.

“Cash Flow Projection” means a schedule prepared on behalf of the Corporation by a nationally recognized investment banking firm or other entity selected by the Corporation and approved in writing by the Rating Agencies receiving such Cash Flow Projection which: (i) sets forth, through the last final maturity of any Series of Outstanding Obligations (or such shorter period as shall be acceptable to the Rating Agencies), (A) all anticipated Revenues, (B) the application of all such Revenues in accordance with the Resolutions and (C) the resulting balances for each period for which prepared and on a cumulative basis; and (ii) evidences that Revenues and other monies available under the Resolutions will be sufficient to pay all debt service on the Obligations when due and to make all other payments required by the terms of the Resolutions. Each Cash Flow Projection shall be based on the assumptions used in the cash flow projections delivered to the Rating Agencies at the time of issuance of the most recently issued Series of Obligations (or such other assumptions as may be proposed by the Corporation and acceptable to the Rating Agencies) and upon actual Account balances.

“Certificate” means: (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the Resolutions; or (ii) the report of an accountant as to audit or other procedures called for by the Resolutions.

“Class” means all Obligations having the same priority of claim as to payment under the Resolutions.

“Code” means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Obligations or the use of the proceeds thereof. A reference to any specific section of the Code shall be deemed also to be a reference to the comparable provisions of any enactment which supersedes or replaces the Code thereunder from time to time.

“Commonwealth” means the Commonwealth of Kentucky.

“Corporation” means the Kentucky Higher Education Student Loan Corporation, an independent *de jure* municipal corporation and political subdivision of the Commonwealth, created and existing under and pursuant to the Act, or any body, agency, authority or instrumentality of the Commonwealth that shall hereafter succeed to the powers, duties and functions of the Corporation.

“Costs of Issuance” means all items of expense, directly or indirectly payable or reimbursable by or to the Corporation and related to the authorization, sale and issuance of Obligations, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary or of its counsel, legal fees and charges, fees and expenses of underwriters, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Obligations, costs and expenses of refunding, premiums, fees, expenses or other similar charges payable to any Obligation Facility Provider (other than Reimbursement Obligations or Other Obligations) or a Swap Provider (other than Swap Payments or Other Obligations), financing charges, accrued interest with respect to the initial investment of proceeds of Obligations, and any other cost, charge or fee in connection with the original issuance of Obligations.

“Counsel’s Opinion” means a written opinion signed by Hawkins, Delafield & Wood or by another attorney or firm of attorneys of recognized standing in the field of law relating to municipal, state and public agency

financing, selected by the Corporation and reasonably satisfactory to the Trustee and any applicable Obligation Facility Provider.

“Debt Service Reserve Account” means the special trust account so denominated established pursuant to the Resolutions.

“Defeasance Securities” means obligations described in paragraph (1) of the definition of Investment Securities included hereunder.

“Earnings Account” means the special trust account so denominated established pursuant to the Resolutions.

“Eligible Lender” means the Kentucky Higher Education Assistance Authority, a *de jure* political subdivision of the Commonwealth of Kentucky and the Corporation and all other entities described as eligible lenders in the Higher Education Act which have in force a contract with a Guarantee Agency providing for loan guarantees to be issued by a Guarantee Agency to the subject lender under the Higher Education Act and the Act.

“Event of Default” means any of the events specified in the Resolutions.

“Excess Coverage” means, as of any date of calculation, the condition under which the sum of the value of (a) the Loans (valued as provided in the Resolutions) credited to the Loan Account and (b) all cash and Investment Securities held in the Accounts (valued as set forth in the Resolutions, plus accrued interest, but excluding amounts irrevocably set aside to pay particular Obligations pursuant to the Resolutions and excluding amounts on deposit in the Rebate Account) shall be at least equal to each of the following three sums: (x) 106% of the sum of the principal of and accrued interest on all Outstanding Senior Obligations plus all accrued but unpaid Program Expenses; (y) 103% of the sum of the principal of and accrued interest on all Outstanding Senior Obligations and Senior Subordinate Obligations plus all accrued but unpaid Program Expenses; and (z) 102% of the sum of the principal of and accrued interest on all Outstanding Obligations plus all accrued but unpaid Program Expenses.

“Federal Family Education Loan Program” or “FFELP” means the program currently authorized by Title IV Part B of the Higher Education Act, as heretofore or hereafter amended.

“Fiduciary” means the Trustee, any Paying Agent and any such additional fiduciary as may be authorized under the Resolutions, or any or all of them as may be appropriate.

“Fiscal Year” means the fiscal year of the Corporation for general financial reporting purposes as modified from time to time. As of the date of the Resolutions the Corporation’s Fiscal Year is July 1 to June 30.

“Guaranty Agency” or “Guarantee Agency” means: (i) the Kentucky Higher Education Assistance Authority duly organized and existing pursuant to the statutory laws of the Commonwealth of Kentucky; (ii) any other guaranty agency under the Higher Education Act, subject to receipt of a Rating Affirmation; and (iii) any successor to the obligations of any such Guaranty Agency under the Higher Education Act.

“Higher Education Act” means the Higher Education Act of 1965, as amended from time to time, and the regulations promulgated thereunder.

“Holder” or “Owner”, or words of similar import, when used with reference to an Obligation means the registered owner of such Obligation.

“Investment Securities” means, with respect to any Series, except as otherwise provided by a Series Resolution authorizing such Series, any of the following, if and to the extent the same are at the time legal for investment of the Corporation’s funds:

1. (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed

as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively "United States Obligations"). The foregoing obligations include, but are not necessarily limited to: (i) U.S. Treasury Obligations (all direct or fully guaranteed obligations); (ii) Farmers Home Administration (certificates of beneficial ownership); (iii) General Services Administration (participation certificates); (iv) U.S. Maritime Administration (guaranteed Title XI financing); (v) Small Business Administration (guaranteed participation certificates and guaranteed pool certificates); (vi) Government National Mortgage Association (GNMA) (GNMA-guaranteed mortgage-backed securities and GNMA-guaranteed participation certificates); (vii) U.S. Department of Housing & Urban Development (local authority bonds); (viii) Washington Metropolitan Area Transit Corporation (guaranteed transit bonds); and (ix) U.S. Export-Import Bank (all fully guaranteed obligations).

2. Federal Housing Administration debentures.

3. Obligations of government-sponsored agencies which are not backed by the full faith and credit of the U.S. government which are rated "Aaa" by Moody's, including: (i) Federal Home Loan Mortgage Corporation (FHLMC) (participation certificates and Debt obligations); (ii) Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives) (consolidated system-wide bonds and notes); (iii) Federal Home Loan Banks (FHL Banks) (consolidated debt obligations and letter of credit (LOC)-backed issues); (iv) Federal National Mortgage Association (FNMA) (senior debt obligations and Mortgage-backed securities (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal)); (v) Student Loan Marketing Association (SLMA) (senior debt obligations (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)); (vi) Financing Corporation (FICO) (debt obligations); and (vii) Resolution Funding Corporation (REFCORP) (debt obligations).

4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "P-1" by Moody's.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.

6. Commercial paper (having original maturities of not more than 270 days) rated "Prime-1" by Moody's.

7. Money market funds which are (a) rated "Aa2" by Moody's or (b) which constitute a money market fund of the Trustee which invests in: (i) Investment Securities described in paragraph (1)(a); and (ii) repurchase agreements collateralized by Investment Securities described in paragraph (1)(a) which are otherwise described in paragraph (8).

8. Repurchase agreements ("repos") in a form acceptable to Moody's: (a) with any bank with deposits rated at least "Aa2" by Moody's; provided the term of such repo is for less than two years; or (b) with any broker-dealer with "retail customers" which has, or the parent company of which has, long-term debt rated at least "Aa2" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC).

9. Obligations that are: (a) direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "Aa2" by Moody's, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated; (b) direct, general short-term obligations of any state agency or subdivision described in (a) above and rated

“Prime-1” by Moody’s; or (c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated “Aa” or better by Moody’s.

10. Investment agreements with (1) a domestic bank the long term debt of which is rated at least “Aa2” by Moody’s or (2) a foreign bank the long-term debt of which is rated at least “Aaa” by Moody’s; provided, that, by the terms of the investment agreement: (a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service on the Obligations the proceeds of which are invested thereunder; (b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Trustee shall give notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid; (c) the investment agreement is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; (d) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the applicable Series Resolution; (e) the Trustee receives a Counsel’s Opinion (which opinion shall be addressed to the Corporation and each applicable Obligation Facility Provider) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms; and (f) the investment agreement must provide that if during its term (i) the provider’s rating by Moody’s is withdrawn or suspended or falls below “Aa2”, the provider must give notice of same to the Corporation and the Trustee and must within 10 days of receipt of such direction, either: (A) repay the principal of and accrued but unpaid interest on the investment, with no penalty or premium to the Corporation or Trustee; or (B) collateralize the investment agreement in a manner approved by Moody’s.

11. Pre-refunded municipal obligations rated “Aaa” by Moody’s meeting the following requirements: (a) the municipal obligations are (i) not subject to redemption prior to maturity or (ii) the trustee has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash or United States Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations; (c) the principal of and interest on the United States Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”); (d) the cash or United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations; (e) no substitution of a United States Obligation shall be permitted except with another United States Obligation and upon delivery of a new Verification; and (f) the cash or United States Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

12. Subject to the prior written approval of each applicable Obligation Facility Provider, such other obligations as shall be permitted to be legal investments of the Corporation by the laws of the Commonwealth.

“Loan” means any Student Loan or other loans credited to the Loan Account.

“Loan Account” means the special trust account so denominated established pursuant to the Resolutions.

“Loan Program” means the program for the financing of Student Loans established by the Corporation, as the same may be amended from time to time consistent with the Resolutions, but only to the extent that such program is financed through the issuance of Obligations or from amounts otherwise available out of the moneys and assets held or pledged pursuant to the Resolutions.

“Moody’s” means Moody’s Investors Service, Inc., its successors and assigns and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation, by notice to the Trustee, and each other Fiduciary and each applicable Obligation Facility Provider.

“Most Senior Outstanding Obligations” means, at any time: (i) if any Senior Obligations are then Outstanding, such Senior Obligations; and (ii) if no Senior Obligations are then Outstanding, the Class of Senior Subordinate Obligations or Subordinate Obligations then Outstanding having the most senior priority as to payment hereunder.

“Notes” means debt obligations of the Corporation, whether or not so designated, other than Bonds or Other Obligations, issued to finance or refinance the making or purchase of Student Loans by the Corporation or any renewal thereof issued pursuant to the Resolutions, which mature no later than five years from the date of original issuance of such Notes.

“Notional Amount” means the nonpayable or the theoretical principal amount with reference to which Swap Payments and Swap Receipts are calculated, as specified as such for each Swap in the documentation applicable thereto.

“Obligation Facility” means any insurance policy, surety agreement, letter of credit or other credit enhancement or liquidity facility entered into for the same or similar purposes, with respect to any Series of Obligations, or with respect to any Student Loans described in clause (B) of the definition thereof herein, which is delivered to the Trustee along with a Certificate of an Authorized Officer to which a Rating Affirmation is attached.

“Obligation Facility Provider” means any bank or insurance company providing an Obligation Facility with respect to a Series and any successor to such an Obligation Facility Provider.

“Obligation Facility Provider Default” means any one of the following events shall have occurred and be continuing:

- (i) an Obligation Facility Provider fails to make or provide for any payment required under the Obligation Facility in accordance with its terms;

- (ii) an Obligation Facility Provider (A) files any petition or commences any case or proceeding under any provision or chapter of the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization, (B) makes a general assignment for the benefit of its creditors, or (C) has a final and nonappealable order for relief entered against it under the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization;

- (iii) a court of competent jurisdiction, or other competent regulatory authority enters a final and nonappealable order, judgment or decree (1) appointing a custodian, trustee, agent or receiver for an Obligation Facility Provider or for all or any material portion of its property or (2) authorizing the taking of possession by a custodian, trustee, agent or receiver of an Obligation Facility Provider (or the taking of possession of all or any material portion of the property of an Obligation Facility Provider); or

- (iv) with respect to any Series of Obligations if so provided by the Series Resolution authorizing such Series, one or more Rating Agency reduces its rating with respect to such Obligation Facility Provider to a rating below that originally assigned to such Series by such Rating Agency; provided, that no such reduction shall affect the rights of such Obligation Facility Provider with respect to Obligations then held by it.

“Obligations” means Bonds, Notes, Reimbursement Obligations, Swap Payments and Other Obligations issued or authorized pursuant to the Resolutions and any applicable Series Resolution.

“Operating Account” means the special trust account so denominated established pursuant to the Resolutions.

“Origination Agreement” means any agreement providing for the origination or for the origination and sale of Student Loans to be financed through application of the proceeds of any Series of Obligations.

“Other Obligations” means debt obligations of the Corporation, other than Bonds and Notes, issued to finance or refinance the making or purchase of Student Loans by the Corporation pursuant to the Resolutions, but does not include any Swap Payments or Reimbursement Obligations.

“Outstanding”, when used with reference to Obligations, means, as of any date, all Obligations theretofore or thereupon being authenticated and delivered under the Resolutions except:

(1) any Obligation cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

(2) any Obligation (or portion of an Obligation) for the payment or redemption of which there have been separately set aside and held in a special trust account therefor either:

(a) moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price thereof, together with accrued interest on such Obligation to the Redemption Date; or

(b) Defeasance Securities, as described in the Resolutions, in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment when due of the principal or applicable Redemption Price of such Obligation, together with accrued interest on such Obligation to the Redemption Date; or

(c) any combination of (a) and (b) above;

provided, however, that Obligations which have been paid with proceeds of an Obligation Facility shall be deemed to continue to remain Outstanding as Reimbursement Obligation Bonds evidencing the related Reimbursement Obligation for purposes of the Resolutions and to bear interest at the rate provided in the related Obligation Facility until each applicable Obligation Facility Provider has been paid as subrogee or reimbursed under the Resolutions as evidenced by a written notice from each applicable Obligation Facility Provider delivered to the Trustee, and each applicable Obligation Facility Provider shall be deemed to be the Owner of such Obligations to the extent of any payments thereon made by each applicable Obligation Facility Provider, but only to the extent that principal of the Obligations was so paid; or

(3) any Obligation in lieu of or in substitution for which other Obligations shall have been authenticated and delivered pursuant to the Resolutions.

“Paying Agent” means the Trustee and any bank or trust company designated as paying agent for the Obligations, and its successor or successors hereafter appointed, in the manner provided in the Resolutions.

“Program Agreement” means, with respect to any Series of Obligations, each Origination Agreement and Servicing Agreement applicable to such Series.

“Program Expenses” means all of the Corporation’s expenses in carrying out and administering its Loan Program under the Resolutions and shall include, without limiting the generality of the foregoing, salaries, origination, acquisition and servicing fees, supplies, utilities, mailing, labor, materials, office rent or mortgage payment, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Obligations, including but not limited to premiums, fees, expenses or other similar charges payable to an Obligation Facility Provider or a Swap Provider (but not including Reimbursement Obligations, Swap Payments or Termination Payments), travel, payments for pension, thrift savings, retirement, health and hospitalization and life and disability insurance benefits, all to the extent properly allocable to the Loan Program. Program Expenses may also include amounts for establishing and maintaining a six-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by the Corporation and amounts appropriate to reimburse the Corporation for Program Expenses paid from other sources all to the extent properly allocable to the Loan Program.

“Rating Affirmation” means, with respect to each Series, the written affirmation of each Rating Agency then maintaining a rating with respect to a Series to the effect that the actions addressed therein would not cause such Rating Agency to reduce or suspend any rating then applicable to such Series.

“Rating Agency” or “Rating Agencies” means, with respect to each Series, each of Moody’s and any other nationally recognized securities rating agency which is maintaining a rating at the request of the Corporation with respect to such Series.

“Rebate Account” means the special trust account so denominated established pursuant to the Resolutions.

“Recycling Period” means (i) with respect to the Senior Series 2001A Bonds, the period ending July 1, 2003 and (ii) with respect to the Subordinate Series 2001B Bonds, the period ending July 1, 2003 except as such dates may be extended by a Certificate of an Authorized Officer accompanied by a Rating Affirmation.

“Redemption Date” means each date upon which Obligations are to be called for redemption pursuant to the Resolutions.

“Redemption Price” means, with respect to any Obligation, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof together, if not otherwise provided for in the Resolutions, with accrued but unpaid interest to the date of redemption.

“Refunding Obligations” means any Obligation authenticated and delivered on original issuance pursuant to the Resolutions some portion of the proceeds of which are applied to the payment of principal or interest of Obligations or Separately Secured Financings or thereafter authenticated and delivered in lieu of or in substitution for any such Obligation pursuant to the Resolutions.

“Registrar” means the Trustee or any other agent of the Corporation at the office of which Obligations may be presented for registration, transfer or exchange as provided in the Resolutions.

“Reimbursement Obligation” means any obligation of the Corporation to make payments to an Obligation Facility Provider in reimbursement of or as interest on (which interest may be higher than the interest rate on the related Obligation) an advance or other payment made by such Obligation Facility Provider for the purpose of paying:

- (i) the principal or Redemption Price of, or interest on, any Obligations; or
- (ii) the purchase price, plus accrued interest, if any, of any Obligations tendered pursuant to the provisions of the applicable Series Resolution,

but only to the extent the principal amortization requirements with respect to such reimbursement are equal to the amortization requirements for such related Obligations, without acceleration. Reimbursement Obligations shall not include: (i) any payments of any fees, expenses, or other similar obligations to any such provider (which payments shall be Program Expenses); or (ii) any payments pursuant to term-loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Obligations (which payments shall be Other Obligations). Reimbursement Obligations may be evidenced by Bonds designated as “Reimbursement Obligation Bonds”, which may bear a higher interest rate than the rate borne by the Obligations to which they relate.

“Reserve Account Facility” means an Obligation Facility pursuant to which an amount equivalent to the Reserve Account Requirement applicable to the Senior Series 2001A Bonds and the Subordinate Series 2001B Bonds is available to fund transfers from the Debt Service Reserve Account to the Revenue Account pursuant to the Resolutions.

“Reserve Account Requirement” means an amount established by each applicable Series Resolution. The Series 2001A Bond Resolution and the Series 2001B Bond Resolution provide that, with respect to the Senior Series 2001A Bonds and the Subordinate Series 2001B Bonds, the Reserve Account Requirement shall be equal to two

percent (2%) of the aggregate principal amount of the then Outstanding Senior Series 2001A Bonds and Subordinate Series 2001B Bonds, subject to a \$500,000 overall Debt Service Reserve Account minimum aggregate requirement.

“Resolutions” means the 1997 General Bond Resolution adopted by the Corporation on May 9, 1997, as supplemented by the Series 2001A Bond Resolution and by the Series 2001B Bond Resolution, and as from time to time amended or supplemented in accordance with the terms and provisions of the Resolutions.

“Revenue Account” means the special trust account so denominated established pursuant to the Resolutions.

“Revenues” means (i) all receipts in respect of payments, proceeds, charges and other cash income received by the Corporation, by the Servicer or by the Trustee for the account of the Corporation from or on account of any Loan, or as a result of the sale or alienation thereof (including scheduled, delinquent and advance payments of interest or principal on any Loan or other payment received by the Trustee, the Corporation or a Servicer with respect to any Loan, but excluding any amount retained by the Servicer of any Loan as compensation for services rendered in connection with the servicing of such Loan); (ii) all interest earned or gain realized from the investment of amounts in any Account (other than amounts credited or required to be deposited to the Operating Account, Earnings Account and the Rebate Account; and (iii) any amount received by the Trustee under any Swap or Swap Facility (other than an initial payment by the Swap Provider assigned by the Corporation to the Trustee for deposit to the credit of the Operating Account) including, without limitation, any Swap Receipts and Termination Receipts.

“Securities Depository” means The Depository Trust Company and its successors and assigns or if: (i) the then Securities Depository resigns from its functions as depository of the Obligations; or (ii) the Corporation discontinues use of the Securities Depository, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Obligations and which is selected by the Corporation with the consent of the Trustee and each applicable Obligation Facility Provider.

“Senior Obligations” means the Class of Obligations issued pursuant to the Resolutions in accordance with the requirements thereof and having a priority of claim as to payment from the Trust Estate that is equal to that of all other Senior Obligations and senior to that of all Subordinate Obligations (including Senior Subordinate Obligations); provided, that at any time at which no Obligations issued or originated as Senior Obligations remain Outstanding, Senior Obligations shall be deemed to mean the most senior Class of Obligations issued or originated as Subordinate Obligations (including Senior Subordinate Obligations) then Outstanding, except that in no event shall Subordinate Obligations (including Senior Subordinate Obligations) be deemed to be Senior Obligations for purposes of priority of claim as to payment under the Resolutions.

“Senior Subordinate Obligations” means the Class of Subordinate Obligations issued pursuant to the Resolutions in accordance with the requirements thereof and having a priority of claim as to payment from the Trust Estate that is: (i) subordinate to all Senior Obligations; (ii) equal to that of all other Senior Subordinate Obligations; and (iii) senior to that of all other Subordinate Obligations.

“Separately Secured Financing” means evidences of indebtedness or other financial instruments issued or entered into by the Corporation under a resolution, indenture of trust or other financing document establishing another and separate trust estate, which are described in the Resolutions.

“Series” means all of the Obligations authenticated and delivered on original issuance in any subsequent simultaneous transaction, pursuant to the same Series Resolution and designated as a Series in such Series Resolution regardless of variations in maturity, interest rate or other provisions, and any Obligations thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Obligations as provided in the Resolutions.

“Series 2001A Bond Resolution” means the Series 2001A Bond Resolution adopted by the Corporation on July 20, 2001.

“Series 2001B Bond Resolution” means the Series 2001B Bond Resolution adopted by the Corporation on July 20, 2001.

“Series Resolution” means any instrument supplemental to or amendatory of the Resolutions adopted by the Corporation in accordance with the provisions of the Resolutions.

“Servicer” means, with reference to any Series of Obligations, (i) the Corporation or any successor, subsidiary or other affiliated entity of the Corporation succeeding to such function; and (ii) such other entity as may be appointed by the Corporation in accordance with any Servicing Agreement.

“Servicing Agreement” means, with respect to any Series of Obligations, any agreement providing for the servicing of Loans financed through application of the proceeds of such Series.

“Student Loan” means an obligation representing advances of money to, or for the benefit of, a student evidenced by one or more promissory notes or otherwise evidenced in such manner as may be described by a Certificate of an Authorized Officer to the Trustee: (A) which are originated pursuant to the Higher Education Act: (i) the holder of which is eligible (in the case of loans originated pursuant to programs qualifying therefor) for special allowance payments and (in the case of loans originated pursuant to programs qualifying therefor) for interest subsidy payments as provided by the Higher Education Act; (ii) the payment of principal of and interest on which is guaranteed or insured by a Guaranty Agency and reinsured as to the principal amount thereof and interest thereon by the Secretary of Education in accordance with the requirements of the Higher Education Act, or insured as to principal amount and interest directly by the Secretary of Education; (iii) which are originated in accordance with Applicable Law; and (iv) which contain terms in accordance with those required by the Higher Education Act and the applicable Guaranty Agency requirements; or (B) which are originated under such other program as may be described by a Certificate of an Authorized Officer to the Trustee accompanied by a Rating Affirmation and originated in accordance with Applicable Law.

“Subordinate Obligations” means any Class of Obligations issued pursuant to the Resolutions in accordance with the requirements thereof and having a claim as to payment from the Trust Estate that is equal to that of all other Subordinate Obligations of the same Class and subordinate to that of all Senior Obligations. Multiple Classes of Subordinate Obligations may be issued in accordance with the requirements of the Resolutions having different priorities of claim as to payment from the Trust Estate.

“Subseries” means: (i) such portion of the Obligations authenticated and delivered on original issuance as part of a single Series as may be so designated in the Series Resolution authorizing such Series regardless of variations in maturity, interest rate or other provisions; and (ii) any Obligations thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) Obligations of such Subseries as provided in the Resolutions.

“Swap” means any financial arrangement: (i) that is entered into by the Corporation with an entity that is a Swap Provider at the time the arrangement is entered into; (ii) (a) which provides that the Corporation shall pay to such entity an amount based on the interest accruing at a fixed rate on the Notional Amount equal to all or part of the Outstanding principal amount of a Series of Obligations issued under the Resolutions, and that such entity shall pay to the order of the Corporation an amount based on the interest accruing on the Notional Amount at a variable rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by such Series of Obligations) or that one (after adjustment for any cap, floor, collar or other financial arrangement referred to in (ii)(c) hereof, with respect thereto) shall pay to the other the net amount (Swap Payment or Swap Receipt) due under such arrangement; (b) which provides that the Corporation shall pay to such entity an amount based on the interest accruing on the Notional Amount equal to all or part of the Outstanding principal amount of a Series of Obligations issued under the Resolutions, at a variable rate of interest computed according to a formula set forth in such arrangement and that such entity shall pay to the order of the Corporation an amount based on the interest accruing at a fixed rate on the Notional Amount (which need not be the same as the actual rate of interest borne by such Series of Obligations) or that one (after adjustment for any cap, floor, collar or other financial arrangement referred to in (ii)(c) hereof, with respect thereto) shall pay to the other the net amount (Swap Payment or Swap Receipt) due under such arrangement; or (c) which is included as part of or covered by the financial transaction described in (ii)(a) or (ii)(b) above or is separately executed and which is a cap, floor or collar, forward rate, future rate, asset, swap or index, price or market linked transaction or agreement, other exchange or rate protection transaction agreement, other similar transaction (however designated) or any combination thereof or

any option with respect thereto executed by the Corporation for the purpose of moderating interest rate fluctuations or otherwise pursuant to the Act; and (iii) which has been designated by a Certificate of an Authorized Officer to the Trustee and authenticated or otherwise registered by the Trustee under the Resolutions as a Swap with respect to a Series of Obligations. "Swap" shall also include any such financial arrangement described in clauses (ii) and (iii) above entered into by the Corporation with a Swap Provider as a replacement of a Swap that has been terminated and which has been so designated by a Certificate of an Authorized Officer to the Trustee with respect to a Series of Obligations.

"Swap Facility" means an insurance policy, surety bond, letter of credit or other credit enhancement with respect to a Swap or any similar facility entered into for the same or similar purposes and may include Investment Securities properly pledged to the Corporation under the Resolutions pursuant to the Swap Facility or by the Swap Provider, in each case satisfying or meeting the rating standards for investments of the Debt Service Reserve Account, which is delivered to the Trustee along with a Certificate of an Authorized Officer to which a Rating Affirmation is attached. Payments by the Corporation under a Swap Facility related to a Swap shall be deemed Swap Payments under the Resolutions and shall not be deemed Reimbursement Obligations and payments to the Corporation under a Swap Facility related to a Swap shall be deemed Swap Receipts. Payment by the Corporation under a Swap Facility applicable to any fees, expenses or similar other charges or obligations thereunder shall be a Cost of Issuance or a Program Expense.

"Swap Payment" means the net amount required to be paid in respect of interest by the Corporation under a Swap that is applicable to the interest rate exchange effected thereunder, but not (a) any fees, expenses or similar other charges or obligations thereunder (which shall be either Program Expenses or Costs of Issuance) or (b) any Termination Payment or other payments by the Corporation on account of termination of the Swap (which shall be Other Obligations).

"Swap Provider" means a financial institution: (i) whose long term debt obligations are rated at least as high by at least two nationally recognized rating agencies as the greater of (a) the rating of the related Class of Bonds or Notes authorized by the applicable Series Resolution authorizing such Swap and (b) "Aa"; (ii) whose obligations under the Swap are fully covered by a Swap Facility and achieve the ratings described in (i); or (iii) whose obligations under the Swap are secured by a pledge of Defeasance Securities in amounts sufficient to achieve the ratings described in (i) hereof.

"Swap Receipt" means the net amount required to be paid to the Corporation under a Swap, but shall not include any Termination Receipt.

"Tax-Exempt" means, with respect to any Series or Subseries of Obligations, that interest received by Bondholders is not included in gross income for federal income tax purposes pursuant to Section 103 of the Code, as evidenced by a Counsel's Opinion addressed to the Corporation.

"Termination Payment" means with respect to a Swap an amount required to be paid by the Corporation to the Swap Provider or related Swap Facility as a result of the termination of the Swap or pursuant to a Swap Facility; provided that any payments by the Corporation on account of termination of a Swap shall be deemed Other Obligations under the Resolutions.

"Termination Receipt" means with respect to a Swap an amount required to be paid to the Corporation by the Swap Provider or related Swap Facility as a result of the termination of the Swap.

"Trust Estate" means all property pledged under the Resolutions in trust for the benefit of the Owners of the Obligations pursuant to the granting clauses of the Resolutions or pursuant to any Series Resolution.

Contract with Holder. The provisions of the Resolutions constitute a contract between the Corporation and the Owners of the Obligations, and the pledges and assignments made in the Resolutions and the provisions, covenants and agreements set forth therein are for the equal benefit, protection and security of the Owners of any and all of such Obligations, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof, except as expressly provided in the Resolutions.

Pledge Effected by the Resolutions. To secure the payment of principal of and interest on the Obligations, there is pledged, subject to the provisions of the Resolutions permitting the application thereof, for or to the purposes and on the terms and conditions set forth in the Resolutions, the Trust Estate, including the following: (i) all moneys, including Obligation proceeds, held in any of the funds and accounts (other than the Rebate Account) established and held under the Resolutions or received by the Trustee for deposit in such funds and accounts (other than the Rebate Account); (ii) all Loans, the Corporation's right, title and interest in which is funded through the application of assets described in (i) above, along with all documentation thereof and all rights of the Corporation with respect thereto except as expressly provided in the Resolutions; (iii) all guarantee or insurance payments with respect to Loans and interest thereon described in (ii) above; (iv) any grant or contributions which may be received by the Corporation from any department, agency or instrumentality of the United States, or from any person; (v) all other Revenues; (vi) all rights of the Corporation with respect to any Origination Agreement or Servicing Agreement; (vii) all rights of the Corporation under any Swap or Swap Facility; and (viii) all direct and indirect proceeds, of any of the assets described in (i) through (vii) above. The pledge shall be valid and binding from and after the date of the Resolutions. In accordance with the statutory lien provisions of the Act, the Trust Estate so pledged shall immediately be subject to the lien of such pledge without any physical delivery or further act, and the lien of any such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation, irrespective of whether such parties have notice thereof.

Nature of Security for Obligations. (A) The Resolutions create an issue of Obligations of the Corporation and creates a continuing pledge and lien to secure the full and final payment of the principal of and interest on such Obligations. The Bonds, Notes, Reimbursement Obligations, Swap Payments and any other obligation of the Corporation arising under any Bond, Note, Obligation Facility or Swap shall be special and limited obligations of the Corporation, payable solely from the Trust Estate without recourse against other assets of the Corporation. The Bonds, Notes, Reimbursement Obligations, Swap Payments and any other obligation of the Corporation arising under any Bond, Note, Obligation Facility or Swap shall not be deemed to constitute a debt or liability of the Commonwealth or of any political subdivision thereof or a pledge of the faith and credit of the Commonwealth or of any such political subdivision other than the Corporation.

(B) The pledges and assignments made under the Resolutions and the provisions, covenants and agreements set forth in the Resolutions to be performed by or on behalf of the Corporation shall be for the equal benefit, protection and security of the Owners of any and all of such Obligations, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof, except as expressly provided in the Resolutions.

(C) (i) Subject to the preceding paragraphs (A) and (B), all Bonds and Notes identified as Senior Obligations by the applicable Series Resolution authorizing their issuance shall have the same priority of claim as to payment under the Resolutions, which priority shall be senior to that of all Subordinate Obligations;

(ii) Subject to the preceding paragraphs (A) and (B), all Bonds and Notes identified as Senior Subordinate Obligations by the applicable Series Resolution authorizing their issuance shall have the same priority of claim as to payment under the Resolutions, which priority shall be subordinate to all Senior Obligations and senior to that of all Subordinate Obligations other than Senior Subordinate Obligations;

(iii) Subject to the preceding paragraphs (A) and (B), all Bonds and Notes identified as Subordinate Obligations, other than Senior Subordinate Obligations, having the same priority by the applicable Series Resolution authorizing their issuance shall have the same priority of claim as to payment under the Resolutions, which priority: (a) shall be subordinate: (I) to all Senior Obligations; (II) to all Senior Subordinate Obligations; (III) to all Subordinate Obligations expressly identified in such Series Resolution or, if not addressed in such Series Resolution, in a subsequent Series Resolution as senior to such Class; and (IV) to all Obligations having the same priority of claim as to payment as do Subordinate Obligations so expressly identified; and (b) shall be senior: (I) to all Subordinate Obligations expressly identified in such Series Resolution or, if not addressed in such Series Resolution, in a subsequent Series Resolution as subordinate to such Class; and (II) to all Obligations having the same priority of claim as to payment as do Subordinate Obligations so expressly identified;

(iv) Subject to the preceding paragraphs (A) and (B), Reimbursement Obligations and Swap Payments arising in connection with any Class of Bonds or Notes shall have the same priority of claim as to payment under the Resolutions as does the applicable Class of Bonds or Notes;

(v) Subject to the preceding paragraphs (A) and (B), Other Obligations shall have a priority of claim as to payment under the Resolutions which shall be either the same as or subordinate to the Reimbursement Obligations or Swap Payments in connection with which such Other Obligations arise as specified in the Series Resolution authorizing the applicable Class of Bonds or Notes; and

(vi) No Owner of Obligations shall have any claim to any amounts properly distributed from the Trust Estate from time to time pursuant to the Resolutions and the recipients of any amounts so distributed shall in no event be required to refund such properly distributed amounts.

Establishment of Accounts. (A) The Resolutions create the following special trust accounts to be held by the Trustee:

- (1) Loan Account;
- (2) Debt Service Reserve Account;
- (3) Revenue Account;
- (4) Operating Account;
- (5) Earnings Account; and
- (6) Rebate Account.

(B) The Trustee shall establish and create such separate funds within any of the Accounts established in subsection (A) of this Section as the Corporation may from time to time direct by delivery of a Certificate of an Authorized Officer or, subject to the written direction of the Corporation as the Trustee may deem advisable to facilitate the administration of the Trust Estate. Each such fund established within any Account shall be treated separately for record keeping and reporting purposes but all such funds established within any Account, other than the Rebate Account, shall constitute one undivided Account for all other purposes of the Resolutions except as the Corporation may direct by delivery of a Certificate of an Authorized Officer. Each such fund established within the Rebate Account with respect to any Series or Subseries of Obligations shall be treated as the sole fund available in the Rebate Account with respect to such Series or Subseries while: (i) any amount remains credited to such fund; and (ii) any obligation of the Corporation with respect to amounts in the Earnings Account and the Rebate Account remain unpaid or unperformed with respect to such Series or Subseries; provided, that the Corporation may from time to time direct the Trustee to effect transfers between funds established in the Rebate Account by delivery of a Certificate of an Authorized Officer accompanied by a Counsel's Opinion to the effect that such transfer would not violate the provisions of the Resolutions relating to Tax-Exempt Obligations. The Trustee may establish and create such separate special trust accounts in addition to the Accounts established in subsection (A) of this Section as the Trustee may deem advisable to facilitate the transfer of cash, Investment Securities or Loans into or out of the Trust Estate or between Accounts established in subsection (A) of this Section. Each special trust account so established shall constitute a part of the Trust Estate and any asset deposited to any special trust account so established shall constitute an asset of the Trust Estate and, with respect to assets transferred from an Account established in subsection (A) of this Section to a special trust account so established, an asset of the Account from which such asset was so transferred for all purposes of the Resolutions.

(C) All moneys and securities deposited in the Accounts and held by the Trustee pursuant to the Resolutions shall be held in trust and applied only in accordance with the provisions of the Resolutions.

Loan Account. There shall be deposited to the credit of the Loan Account a portion of the proceeds of each Series other than any Series of Refunding Obligations. Amounts so credited which represent original proceeds of a Series of Obligations and which are deposited thereto for application to the financing and refinancing of Student

Loans described in clause (A) of the definition thereof or pursuant to any program described in clause (B) of such definition shall be so applied prior to the application of amounts deposited to the credit of the Loan Account for such application from the proceeds of any subsequently issued Series of Obligations or from any other source.

Amounts in the Loan Account shall be expended only: (a) to finance and refinance Student Loans, including the payment of any origination fees, origination discounts, transfer fees and acquisition premiums and to pay Costs of Issuance; (b) to apply to the redemption of Obligations in accordance with the Resolutions; (c) to provide amounts for transfer to the Revenue Account in accordance with the Resolutions; and (d) to provide amounts for transfer to the Operating Account in accordance with the Resolutions. All Loans financed or refinanced by application of amounts in the Loan Account shall be credited to the Loan Account, notwithstanding that the notes or other evidence of such Loans may be held by a Servicer.

The Resolutions provide that the Corporation may at any time direct the Trustee in writing to apply amounts in the Loan Account to the redemption, purchase or retirement of any Obligations in accordance with their terms and the provisions thereof, but only if there is delivered to the Trustee, along with such written direction, a Certificate of an Authorized Officer stating that, in the judgment of the Corporation, such transfer or application would not materially and adversely affect the security pledged to the payment of any Obligations remaining Outstanding. The Resolutions further provide, with respect to the Series 2001A Bonds and the Series 2001B Bonds, that all amounts credited to the Loan Account upon issuance of the Series 2001A Bonds and the Series 2001B Bonds, respectively, as original proceeds of the Series 2001A Bonds and the Series 2001B Bonds which have not been applied to finance Student Loans on or before July 1, 2003, or such later date as may be established by a Certificate of an Authorized Officer accompanied by a Rating Affirmation, shall be applied to the redemption of the Series 2001A Bonds and the Series 2001B Bonds, respectively.

The Resolutions provide that, in the event that amounts available in the Revenue Account, along with all other amounts available for transfer to the Revenue Account from sources other than the Debt Service Reserve Account and the Loan Account, shall at any time be insufficient to fund payments therefrom in accordance with Paragraphs FIRST, SECOND, THIRD or FOURTH included under "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS — Revenue Account" in this APPENDIX B, the Trustee shall transfer the amount necessary to fund such payment to the Revenue Account, but only to the extent of cash then credited to the Loan Account without liquidating Loans credited thereto.

The Resolutions provide that, in the event that amounts available in the Revenue Account, along with all other amounts available for transfer to the Revenue Account from sources other than the Loan Account, shall at any time be insufficient to fund payments therefrom in accordance with Paragraphs FIRST, SECOND, THIRD or FOURTH included under "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS — Revenue Account" in this APPENDIX B, the Trustee shall transfer the amount necessary to fund such payment to the Revenue Account and shall liquidate Loans to the extent necessary to effect such transfer.

The Resolutions provide that, subject to any provision contained in a Series Resolution limiting the payment of Program Expenses, in the event that the amounts available in the Operating Account, along with all other amounts available for transfer to the Operating Account from sources other than the Loan Account, shall at any time be insufficient to pay estimated Program Expenses then unpaid or becoming payable during the applicable period beginning on the next preceding Interest Payment Date, or during the applicable period beginning on the date of issuance, as estimated by the Corporation and as set forth in the Certificate of an Authorized Officer of the Corporation, the Corporation shall direct the Trustee to and the Trustee, upon receipt of such Certificate, shall transfer the amount set forth in such Certificate to the Operating Account.

The Series 2001A Bond Resolution and the Series 2001B Bond Resolution limit the annual amount expended from the Trust Estate to pay certain Program Expenses to 1.25% of the principal balance of Loans credited to the Loan Account or such other percentage as may be established by a Certificate of an Authorized Officer of the Corporation accompanied by a Rating Affirmation.

Debt Service Reserve Account. Except as may be set forth in any Series Resolution, in the event that amounts available in the Revenue Account are insufficient, subsequent to any transfer thereto from the Loan Account as set forth in the Resolutions, to fund certain payments therefrom, including the principal of, or the interest

on, the Senior Obligations or the Subordinate Obligations, the Trustee shall transfer the amount necessary to fund such payment from the Debt Service Reserve Account to the Revenue Account.

In the event that amounts in the Debt Service Reserve Account shall at any time exceed the aggregate requirement therefor established by each applicable Series Resolution, taking into account all transfers and payments of principal to be effected on the date of calculation, such excess shall be transferred, upon the written direction of the Corporation, to the Revenue Account or the Loan Account or, in the absence of such direction, to the Revenue Account.

Revenue Account. Except as otherwise provided by a Series Resolution, all Revenues are to be deposited promptly with the Trustee in the Revenue Account. The Trustee is to apply, at the direction of the Corporation, all moneys then deposited therein as follows and in the following order of priority:

- FIRST: On any Business Day, to apply to the payment to a borrower or to the federal government of amounts required pursuant to the Applicable Law with respect to rebates of amounts paid by borrowers, to origination fees and to insurance or to guarantee fees, as established by delivery of a Certificate of an Authorized Officer;
- SECOND: With respect to any Tax-Exempt Series or Subseries of Obligations, on any Business Day, to transfer to the credit of the Rebate Account, to the extent of funds available, an amount sufficient, along with the other amounts: (i) credited thereto, subsequent to all transfers or credits thereto on the preceding Business Day; (ii) credited thereto on such Business Day as earnings upon the Rebate Account; or (iii) transferred thereto on such Business Day from the Earnings Account, to fund required payments from the Rebate Account on such date;
- THIRD: With respect to any Tax-Exempt Series or Subseries of Obligations, on any Business Day, to apply in accordance with the requirements of the Arbitrage Certificate to assure compliance with the Resolutions;
- FOURTH: On any Interest Payment Date, other date upon which principal of Obligations is payable or other date upon which a Reimbursement Obligation or Swap Payment is payable, and subsequent to the foregoing applications, to transfer to the Paying Agent an amount sufficient to fund payments in the following order of priority: (i) all interest, Reimbursement Obligations in respect of interest and Swap Payments on Senior Obligations due on such date, and all principal and Reimbursement Obligations in respect of principal of Senior Obligations due on such date (other than pursuant to optional redemption), on a pro rata basis within such Class; (ii) to the credit of the Debt Service Reserve Account, the amount necessary to cause the balance therein to equal the aggregate requirement therefor established in each Series Resolution; and (iii) with respect to each successive Class of Subordinate Obligations having the next most senior priority as to payment hereunder, all interest, Reimbursement Obligations in respect of interest and Swap Payments due on such date and all principal and Reimbursement Obligations in respect of principal due on such date (other than pursuant to optional redemption), on a pro rata basis within such respective Class;
- FIFTH: On the last Business Day of each calendar quarter and subsequent to the foregoing applications, to transfer to the credit of the Operating Account, to the extent of amounts available, an amount sufficient, along with all other amounts available therefor, to pay Program Expenses then unpaid and payable or becoming payable during the next quarterly period;
- SIXTH: On any Interest Payment Date and subsequent to the foregoing applications, to transfer to the Paying Agent an amount sufficient to fund payment of any Carry-over Amount payable pursuant to any Series Resolution, with respect to each successive Class of Senior and

Subordinate Obligations, in descending order of priority as to payment hereunder, on a pro rata basis within such respective Class;

- SEVENTH: On any date upon which Obligations are payable pursuant to redemption, and subsequent to the foregoing applications, to transfer to the Paying Agent an amount sufficient to fund payments in the following order of priority: (i) all principal and Reimbursement Obligations in respect of principal of Senior Obligations due on such date pursuant to optional redemption along with any associated premium, on a pro rata basis within such Class; and (ii) all principal and Reimbursement Obligations in respect of principal of each successive Class of Subordinate Obligations having the next most senior priority as to payment hereunder due on such date pursuant to optional redemption, along with any associated premium, on a pro rata basis within such respective Class;
- EIGHTH: On any Interest Payment Date and subsequent to the foregoing applications, if so directed by a Certificate of an Authorized Officer, to transfer to the Paying Agent the amount so certified for application to the redemption of Obligations as directed in such Certificate in accordance with their terms and the provisions of the Resolutions;
- NINTH: On any Interest Payment Date and subsequent to the foregoing applications, if: (i) so directed by a Certificate of an Authorized Officer stating the amount of Excess Coverage which would otherwise exist, after giving effect to all other transfers made or to be made pursuant to the Resolutions on such date; and (ii) a Cash Flow Projection shall have been delivered to each Rating Agency, with a copy to the Trustee, which Cash Flow Projection shall be prepared assuming such transfer, to transfer in accordance with a Certificate of an Authorized Officer, an amount not in excess of the amount of Excess Coverage so certified free and clear of the lien of the Resolutions; and
- TENTH: On any Interest Payment Date which occurs prior to the end of any applicable Recycling Period and subsequent to the foregoing applications, to transfer to the credit of the Loan Account an amount established by delivery of a Certificate of an Authorized Officer evidencing that the aggregate amount of funds credited to the Loan Account which the Corporation then projects that it might apply, if credited to the Loan Account to finance Student Loans during the then current Fiscal Year, exceeds the amount credited to the Loan Account and available for such purpose by at least such amount.

Operating Account. Amounts on deposit in the Operating Account shall be used only to pay Program Expenses as due and may be released to the Corporation for such purpose on the last Business Day of any calendar month, or on such other monthly or less frequent schedule as may be requested by the Corporation from time to time in writing with respect to any Series of Obligations in an amount not exceeding the estimated amount of Program Expenses then unpaid or becoming payable during the next succeeding calendar month, as established by delivery of a Certificate of an Authorized Officer setting forth such amount; provided, that the portion of such amounts attributable to any Series to which an Obligation Facility applies shall be paid to the applicable Obligation Facility Provider upon the written direction of such applicable Obligation Facility Provider received by the Trustee during any period subsequent to an Event of Default and prior to an Obligation Facility Provider Default; and, further provided, that the aggregate amount so released or paid within any calendar quarter shall not exceed the assumption therefor reflected in the then current Cash Flow Projection.

Earnings Account. With respect to the Subordinate Series 2001B Bonds and any other Tax-Exempt Series or Subseries of Obligations, there shall be credited to the Earnings Account all amounts received in any Account, other than the Rebate Account, as interest earnings or net gain on disposition of investments, other than Loans, in excess of the Obligation Yield, but only if such deposit is required by the applicable Arbitrage Certificate.

With respect to the Subordinate Series 2001B Bonds and any other Tax-Exempt Series or Subseries of Obligations, but only if such deposit is required by the applicable Arbitrage Certificate, on the first Business Day following each computation period, amounts in the Earnings Account shall be deposited into the Rebate Account such that the amount held in the Rebate Account after such deposit is equal to the rebate amount calculated as of the

last day of the computation period pursuant to written instructions from the Corporation. Following such transfers, any amounts on deposit in the Earnings Account shall be deposited to the Revenue Account.

Rebate Account. Upon receipt of written instructions from an Authorized Officer, amounts with respect to rebate liability which are transferred from the Earnings Account if applicable, or from the Revenue Account, to the Rebate Account shall be rebated to the United States at the times and in the amounts set forth in the Resolutions.

Investment of Certain Funds. Subject to the right of the Corporation to direct in writing the investment or deposit of funds in accordance with the Resolutions, moneys in any Account except as provided in the Resolutions shall be continuously invested and reinvested or deposited and redeposited by the Trustee in the highest yield Investment Securities, with a view toward maximizing yield (with proper preservation of principal) and minimizing the instances of uninvested funds.

Investment Securities purchased as an investment of moneys in any Account held by the Trustee under the Resolutions shall be deemed at all times to be a part of such Account, but with respect to any Tax-Exempt Series or Subseries of Obligations, the income or interest earned and gains realized in excess of losses suffered by an Account other than the Rebate Account due to the investment thereof shall be deposited in the Earnings Account, but only if such deposit is required by the applicable Arbitrage Certificate or, subject to compliance with certain requirements, shall be deposited in the Revenue Account or credited as Revenues to the Revenue Account from time to time and reinvested, in accordance with the Resolutions.

Valuation of Investments. In computing the amount in any Account, obligations other than Loans purchased as an investment of moneys therein shall be valued at amortized value, unless otherwise provided in the applicable Series Resolution provided, however, that Investment Securities credited to the Debt Service Reserve Account shall be valued at the then current market value as determined by the Trustee as of the last day of each month. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Loans shall be valued at par plus: (i) accrued interest; and (ii) with respect to Loans described in clause (A) of the definition thereof in the Resolutions, accrued but unpaid federal obligations, if any, other than interest, applicable to such Loans, in each case as evidenced by the Certificate of an Authorized Officer.

Loan Program. The Corporation shall, from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Resolutions and sound banking practices and principles: (i) do all such acts and things necessary to receive and collect Revenues sufficient to pay the expenses of the Loan Program; and (ii) diligently enforce and take all steps, actions and proceedings reasonably necessary in the judgment of the Corporation to protect its rights with respect to, to maintain any insurance on and to enforce all terms, covenants and conditions of Loans.

For so long as any Obligations are Outstanding, the Corporation shall administer the Loan Program in such manner as to ensure that the Loan Program and the Loans will benefit, to the optimum extent, from its contractual rights relative to all Loans.

The Corporation shall, either directly, or through its Servicers, diligently collect all principal and interest payments on all Loans held under the Resolutions, and all applicable interest subsidy payments, surety, insurance or guarantee claims and special allowance payments; subject, however, to the reserved rights of the Corporation: (i) to implement programs which have the effect of reducing Student Loan revenue received for purposes of reducing overall costs of administering such Student Loans or of benefiting the borrowers; and (ii) subsequent to delivery to the Trustee of a Certificate of an Authorized Officer to which is attached a Rating Affirmation and, if any Tax-Exempt Series or Subseries of Obligations is then Outstanding, a Counsel's Opinion to the effect that the capacity of the Corporation to comply with the Tax Covenants set forth in the Resolutions with respect to such Series or Subseries would not be materially reduced solely as a result thereof, to finance and refinance Student Loans which

are affected by such programs by application of amounts in the Loan Account. The Corporation shall, or through its Servicers shall, cause the filing and assignment of such claims within the time prescribed by Applicable Law. The Corporation will remain, with respect to such Loans, in material compliance with all Applicable Law which applies to the Loan Program and to such Loans and will take no action to jeopardize the right to receive any federal payments with respect to the Loans described in clause (A) of the definition of Student Loans to which such payments may be applicable.

Except as otherwise provided in the Resolutions, the Corporation may at any time sell, assign, transfer or otherwise dispose of a Loan credited to the Loan Account at a price:

- (i) in excess of the principal amount thereof (plus accrued borrower interest) or equal to or in excess of the purchase price paid by the Corporation for such Loan (less principal amounts received with respect to such Loan);

- (ii) equal to the principal amount thereof (plus accrued borrower interest), when necessary to fund a transfer pursuant to the Resolutions; or

- (iii) lower than the principal amount thereof (plus accrued borrower interest) when the Corporation delivers to the Trustee and each Obligation Facility Provider, as required, a Certificate of an Authorized Officer stating that:

- (a) the Corporation reasonably believes that the Revenues expected to be received (after giving effect to such sale, assignment, transfer or other disposition) would be at least equal to the Revenues expected to be received assuming no such sale, assignment, transfer or other disposition occurred, or

- (b) the Corporation shall remain able to pay debt service on the Obligations on a timely basis (after giving effect to such sale, assignment, transfer or other disposition) whereas it would not have been able to pay on a timely basis if it had not sold, assigned, transferred or disposed of the Loans at such discounted amount, or

- (c) the amount on deposit in the Accounts (excluding the Earnings Account, the Rebate Account and the Operating Account), including the Loans therein (valued at par plus accrued interest, accrued interest subsidy payments and accrued special allowance payments, if any), and the then current value of the cash and Investment Securities in such Accounts (after giving effect to such sale, assignment, transfer or other disposition) will be at least equal to the principal amount of the Outstanding Obligations plus accrued interest, or

- (d) the amount for which the Loan is being sold, assigned, transferred or disposed of is equal to the purchase price paid by the Corporation for such Loan (less principal amounts received with respect to such Loan).

Under all circumstances, the Corporation shall sell Loans if necessary to prevent the occurrence of an Event of Default.

Power to Issue Obligations and Pledge Revenues, Funds and Other Property. The Corporation is duly authorized under all applicable laws to authorize and issue the Obligations and to enter into, execute and deliver the Resolutions and to pledge the assets and revenues purported to be pledged thereby in the manner and to the extent therein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created thereby, and all corporate or other action on the part of the Corporation to that end has been and will be duly and validly taken. The Obligations are and will be the valid and legally enforceable obligations of the Corporation in accordance with their respective terms and the terms of the Resolutions. The provisions of the Resolutions are and will be a valid and legally enforceable obligation of the Corporation in accordance with its terms. The Corporation shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues,

including rights therein pledged under the Resolutions, and all the rights of the Holders under the Resolutions against all claims and demands of all persons whomsoever.

Further Assurance. At any and all times the Corporation shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which the Corporation may become bound to pledge or assign.

Tax Covenants. With respect to the Subordinate Series 2001B Bonds and any other Tax-Exempt Series or Subseries of Obligations, the Corporation shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Obligations shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation. The Corporation shall not permit at any time or times any of the proceeds of the Subordinate Series 2001B Bonds and any other Tax-Exempt Series or Subseries of Obligations or any other funds of the Corporation to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any of the Subordinate Series 2001B Bonds or any of such other Tax-Exempt Series or Subseries of Obligations to be an “arbitrage bond” as defined in the Code.

Series Resolutions Effective Upon Filing with the Trustee. For any one or more of the following purposes and at any time or from time to time, a Series Resolution of the Corporation may be adopted, which, upon the filing with the Trustee and each Obligation Facility Provider applicable to an affected Series of a copy thereof so identified by a Certificate of an Authorized Officer, shall be fully effective in accordance with its terms upon the fifteenth day subsequent to such filing, or with respect to any Series Resolution exclusively for the purpose described in paragraph (5) of this Section shall be fully effective as provided in such Series Resolution; provided, that the written consent of any affected Obligation Facility Provider to any such Series Resolution, other than a Series Resolution described in paragraph (5), (6) or (7) (which shall require no consent except such consent as may be required by a Series Resolution authorizing any Series of Obligations) has been received by the Trustee on or prior to such date, or else upon receipt of such consent:

- (1) to add to the Resolutions other covenants and agreements to be observed by the Corporation which are not contrary to or inconsistent with the Resolutions as theretofore in effect; or
- (2) to add to the Resolutions other limitations and restrictions to be observed by the Corporation which are not contrary to or inconsistent with the Resolutions as theretofore in effect; or
- (3) to surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of the Resolutions, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Resolutions; or
- (4) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolutions, of the Revenues or of any other revenues or assets; or
- (5) to authorize the issuance of one or more Series of Obligations and to prescribe the terms and conditions upon which such Obligations may be issued; or
- (6) to modify any provision of the Resolutions if such modification is applicable only to Obligations to be issued subsequent to the effective date of such Series Resolution and if, in Counsel’s Opinion, such modification does not materially affect any Outstanding Series; or
- (7) to implement any change in the corporate structure of the Corporation subsequent to the date hereof which results in the assignment of the duties of the Corporation hereunder to one or more successor, subsidiary or affiliated entities.

Series Resolutions Effective Upon Consent of Trustee. (A) For any one or more of the following purposes, a Series Resolution may be adopted, which, upon (i) the filing with the Trustee and each Obligation

Facility Provider applicable to an affected Series of a copy thereof certified by a Authorized Officer, and (ii) the filing with the Trustee, each applicable Obligation Facility Provider and the Corporation of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms upon the fifteenth day subsequent to such filing; provided, that the written consent of each applicable Obligation Facility Provider to any such Series Resolution is received by the Trustee on or prior to such date, or else upon receipt of such consent:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolutions; or
- (2) to insert such provisions clarifying matters or questions arising under the Resolutions as are necessary or desirable and are not contrary to or inconsistent with the Resolutions as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Loans; or
- (4) to provide for the orderly sale or remarketing of Obligations.

(B) Any such Series Resolution may also contain one or more of the purposes specified in the section entitled “Series Resolutions Effective Upon Filing With the Trustee” above, and in that event, the consent of the Trustee shall be required only to those provisions of such Series Resolution as shall contain one or more of the purposes set forth in subsection (A) above.

Series Resolutions Effective Upon Consent of Holders. A Series Resolution may be adopted subject to consent by Holders in accordance with and subject to the Resolutions and each Obligation Facility Provider. Any such Series Resolution shall become fully effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer and upon compliance with the Resolutions.

Powers of Amendment. Any modification of or amendment to the Resolutions may be made by a Series Resolution, but only, in the event such Series Resolution shall be pursuant to the Section entitled “Series Resolution Effective upon Consent of Holders”, with the written consent given as provided in the Resolutions (i) of the Owners of at least fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations which are Outstanding at the time such consent is given or (ii) in case less than all of the Most Senior Outstanding Obligations then Outstanding are affected by the modification or amendment, of the Owners of at least fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations so affected and Outstanding at the time such consent is given; provided, that consent of the applicable Obligation Facility Provider shall be deemed to establish consent of at least fifty-one percent (51%) of the Owners of a Series if such Obligation Facility Provider is providing an Obligation Facility with respect to all Obligations of such Series. If any such modification or amendment will not take effect so long as any Most Senior Outstanding Obligations of a specified maturity remain Outstanding, however, the consent of the Owners of such Most Senior Outstanding Obligations shall not be required and such Most Senior Outstanding Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Most Senior Outstanding Obligations Outstanding under the Resolutions. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Obligation or of any installment of interest thereon or a reduction in the principal amount or redemption price thereof or in the rate of interest thereon without the consent of the Owner of such Obligation or shall reduce the percentages or otherwise affect the Classes of Obligations, the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. The Trustee may in its sole discretion determine whether or not in accordance with the foregoing powers of amendment Obligations of any particular maturity would be affected by any modification or amendment of the Resolutions and any such determination shall be binding and conclusive on the Corporation and all Owners of Obligations. No such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Holders.

Consent of Holders. (A) A copy of any Series Resolution making a modification or amendment which is not permitted by the Resolutions (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request for their consent thereto, shall be mailed by the Corporation to each applicable Obligation

Facility Provider, prior to an Obligation Facility Provider Default, or to the Owner of each Most Senior Outstanding Obligation after an Obligation Facility Provider Default. Such Series Resolution shall not be effective unless (i) there shall have been filed with the Trustee (a) the written consents specified above in “Powers of Amendment” and (b) a Counsel’s Opinion stating that such Series Resolution has been duly and lawfully adopted by the Corporation in accordance with the provisions of the Resolutions, is authorized or permitted by the Resolutions and is valid and binding upon the Corporation, (ii) published notice shall have been given as hereinafter provided in the Resolutions and (iii) the written consent of each applicable Obligation Facility Provider has been received by the Trustee.

(B) Notice stating in substance that the Series Resolution has been consented to by the Owners of the required percentages of Most Senior Outstanding Obligations and will, subject to receipt of consent by each applicable Obligation Facility Provider, be effective as provided in the Resolutions, shall be given to Holders by the Corporation: (i) either by publication in not less than two newspapers or financial journals printed in the English language and customarily published (except in the case of legal holidays) at least once a day for at least five days in each calendar week, one of which is of general circulation in the City of Louisville, Kentucky and one of which is of general circulation in the Borough of Manhattan, City and State of New York or by distribution by electronic medium devoted to matters affecting the public market for obligations of Commonwealth and local governments and their instrumentalities and deposit with a municipal bond secondary market disclosure repository approved for such purpose by the federal Securities and Exchange Commission or the Municipal Securities Rulemaking Board; and (ii) by mailing such notice to the Holders (but failure to mail such notice shall not prevent such Series Resolution from becoming effective and binding as provided in this Section). Such Series Resolution making such amendment or modification shall be deemed conclusively binding upon the Corporation, the Fiduciaries, the Owners of all Obligations and each applicable Obligation Facility Provider upon its execution and delivery in accordance with the provisions of the Resolutions.

Modifications by Unanimous Consent. The terms and provisions of the Resolutions and the rights and obligations of the Corporation and of the Owners of the Obligations may be modified or amended in any respect upon the adoption and filing by the Corporation of a Series Resolution and the consent of each applicable Obligation Facility Provider and of Owners of all the Obligations then Outstanding, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Holders. No notice of any such modification or amendment to Holders shall be required.

Events of Default. Each of the following events is an “Event of Default” under the Resolutions:

- (1) payment of the principal of or Redemption Price, if any, on any Most Senior Outstanding Obligation shall not be made when and as the same shall become due, whether at maturity or upon call for redemption or otherwise; or
- (2) payment of any installment of interest on any Most Senior Outstanding Obligation shall not be made when and as the same shall become due; or
- (3) the Corporation shall fail or refuse to comply with the other provisions of the Resolutions, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained in the Resolutions or in the Obligations, and such failure, refusal or default shall continue for a period of thirty days after written notice thereof by the Trustee, each applicable Obligation Facility Provider or the Owners of not less than fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations Outstanding, except that if the Corporation is taking steps to cure the event and the event is curable within a reasonable period of time, such event shall not be an Event of Default; or
- (4) the Corporation shall:
 - (a) admit in writing its inability to pay its debts generally as they become due; or
 - (b) consent to the appointment of a custodian (as that term is defined in the federal Bankruptcy Code) for, or assignment to a custodian of, the whole or any substantial part

of the Corporation's property, or fail to cause to be stayed, set aside or vacated within one hundred and twenty (120) days from the date of entry thereof any order or decree entered by a court of competent jurisdiction ordering such appointment or assignment; or

- (c) commence any proceeding or file a petition under the provisions of the federal Bankruptcy Code for liquidation, reorganization or adjustment of debts, or under any insolvency law or other statute or law providing for the modification or adjustment of the rights of creditors or fail to cause to be stayed, set aside or vacated within one hundred and twenty (120) days from the date of entry thereof any order or decree entered by a court of competent jurisdiction pursuant to an involuntary proceeding, whether under federal or state law, providing for liquidation or reorganization of the Corporation or modification or adjustment of the rights of creditors.

Acceleration. If any Event of Default specified in paragraphs (1) or (2) of the definition of "Event of Default" above shall have happened and be continuing, the Trustee may, and upon the written request of the Owners of not less than fifty-one percent (51%) in aggregate principal amount of Most Senior Outstanding Obligations Outstanding shall, by notice in writing delivered to the Corporation, declare the principal of and interest accrued on all Obligations then Outstanding immediately due and payable. At any time before such declaration, the Owners of twenty-five percent (25%) in principal amount of the Most Senior Outstanding Obligations Outstanding with, subject to the provisions of the Resolutions, the prior consent of each applicable Obligation Facility Provider, by written notice to the Corporation and the Trustee, may rescind and annul such direction and its consequences if:

(1) there has been paid to or deposited with the Trustee by or for the account of the Corporation, or provision satisfactory to the Trustee has been made for the payment of, a sum sufficient to pay:

- (a) all overdue installments of interest on all Obligations;
- (b) the principal of any Obligations which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates borne by the Obligations;
- (c) to the extent that payment of such interest is lawful, interest upon overdue installments of interest at the rate or rates borne by the Obligations; and
- (d) all sums paid or advanced by the Trustee under the Resolutions, and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and other Fiduciaries; and

(2) all Events of Default, other than the non-payment of the principal of and interest on Obligations which have become due solely by such declaration of acceleration, have been cured or waived as provided in the Resolutions.

No such rescission and annulment shall affect any subsequent default or impair any right consequent thereon.

Other Remedies. (A) Upon the happening and continuance of any Event of Default described in paragraphs (1) or (2) of the definition of "Event of Default" above, the Trustee shall immediately notify the Corporation, each applicable Obligation Facility Provider and each other Fiduciary of the existence of such Event of Default and shall proceed, or upon the happening and continuance of any Event of Default specified in paragraphs (3) or (4) of the definition of "Event of Default" above, the Corporation shall immediately notify the Trustee and each other Fiduciary and the Trustee may proceed and, upon the written request of the Owners of not less than fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations Outstanding or, prior to an Obligation Facility Provider Default of each applicable Obligation Facility Provider, shall proceed, in its own name, to protect and enforce the rights of the Holders and each applicable Obligation Facility Provider by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Holders and each applicable Obligation Facility Provider, including the right to require the Corporation to receive and collect Revenues adequate to carry out the covenants and agreements as to, and the assignment of, the Loans and to require the Corporation to carry out any other covenants or agreements with Holders and to perform its duties as prescribed by law;

(2) by bringing suit upon the Obligations;

(3) by action or suit in equity, to require the Corporation to account as if it were the trustee of an express trust for the Owners of the Obligations and each applicable Obligation Facility Provider;

(4) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Obligations and each applicable Obligation Facility Provider;

(5) by declaring all Obligations due and payable, (but only with the written consent of all Owners of Most Senior Outstanding Obligations, if such Event of Default is the result of nonpayment of the principal of or interest on Subordinate Obligations, and only with the written consent of all Owners of Obligations, if such Event of Default is not the result of nonpayment of the principal of or interest on Obligations) and if all defaults shall be cured, then, with the written consent of the Owners of not less than fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations Outstanding and each applicable Obligation Facility Provider, by annulling such declaration and its consequences; or

(6) with, prior to an Obligation Facility Provider Default, the prior written consent of each applicable Obligation Facility Provider in the event that all Obligations are declared due and payable, by selling Loans credited to the Loan Account and Investment Securities.

(B) Except upon the occurrence and during the continuance of an Event of Default, the Corporation expressly reserves and retains the privilege to receive and, subject to the terms and provisions of the Resolutions, to keep or dispose of, claim, bring suit upon or to otherwise exercise, enforce or realize upon its rights and interest in and to the Loans and the proceeds and collections therefrom, and neither the Trustee, nor any applicable Obligation Facility Provider, nor any Holder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Priority of Payments After Default. In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal of or Redemption Price and interest then due on the Obligations, such funds (other than funds held for the payment of principal or premium of or interest on particular Obligations which have theretofore become due at maturity or redemption allocable to each Series affected), and any other amounts received or collected by the Trustee acting pursuant to the Resolutions after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of the Obligations and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under the Resolutions, shall be applied to the extent allocable to each affected Series of Obligations as follows:

(1) Unless the principal of all of the Obligations shall have become or have been declared due and payable:

FIRST: To the payment to the persons entitled thereto of all installments of interest, Reimbursement Obligations in respect of interest and Swap Payments on Most Senior Outstanding Obligations then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference;

SECOND: To the payment to the persons entitled thereto of the unpaid principal and Reimbursement Obligations in respect of principal of Most Senior Outstanding Obligations, along

with any associated premium, which shall have become due and if the amounts available shall not be sufficient to pay in full all the Most Senior Outstanding Obligations due, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference;

THIRD: With respect to each successive Class of Subordinate Obligations having the next most senior priority as to payment: (A) to the payment to the persons entitled thereto of all installments of interest, Reimbursement Obligations in respect of interest and Swap Payments on Obligations of such Class then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installments, to the persons entitled thereto, without any discrimination or preference; and (B) to the payment to the persons entitled thereto of the unpaid principal and Reimbursement Obligations in respect of principal of any Obligations of such Class which shall have become due, along with any associated premium, and, if the amounts available shall not be sufficient to pay in full all the Obligations of such Class due, then to the payment thereof ratably, according to the amounts of principal, along with any associated premium, due on such date, to the persons entitled thereto, without any discrimination or preference; and

FOURTH: To be held for the payment to the persons entitled thereto as the same shall become due, of the principal or Redemption Price of and interest on the Obligations which may thereafter become due and if the amounts available shall not be sufficient to pay in full all the Obligations due on any date, together with such interest, payment shall be made ratably according to the amount of principal and interest due on such date to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Obligations shall have become or have been declared due and payable:

FIRST: to the payment of the principal and interest then due and unpaid upon the Most Senior Outstanding Obligations without preference of priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Most Senior Outstanding Obligation over any other Most Senior Outstanding Obligation, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference; and

SECOND: With respect to each successive Class of Subordinated Obligations having the next most senior priority as to payment, to the payment of the principal and interest then due and unpaid upon the Obligations of such Class without preference of priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, of or any Obligation of such Class over any other Obligation of such Class, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case the Corporation, each applicable Obligation Facility Provider, the Trustee and the Holders shall be restored to their former positions and rights, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceedings had been taken.

Direction of Proceedings by Holders or each applicable Obligation Facility Provider. The Owners of a majority in aggregate principal amount of Most Senior Outstanding Obligations then Outstanding or, prior to an Obligation Facility Provider Default, each applicable Obligation Facility Provider, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Resolutions, provided that: (a) such direction shall not be otherwise than in accordance with the provisions of law

and of the Resolutions; (b) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Owners of Obligations not taking part in such direction; (c) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction; and (d) the Trustee may initiate proceedings in Kentucky state court or in federal court located in Kentucky.

Limitation on Rights of Holders. (A) No Owner of any Obligation other than a Most Senior Outstanding Obligation shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under the Resolutions and no Owner of a Most Senior Outstanding Obligation shall have any such right unless such Owner shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Owners of not less than fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Resolutions or for any other remedy under the Resolutions or by law. It is understood and intended that no one or more Owners of the Obligations secured by the Resolutions shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolutions, or to enforce any right under the Resolutions or under law with respect to the Obligations or the Resolutions, except in the manner provided by the Resolutions, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided under the Resolutions and for the benefit of all Owners of the Outstanding Obligations. Nothing contained in the Article of the Resolutions entitled "Defaults and Remedies" shall affect or impair the right of any Holder to enforce the payment of the principal or purchase price of and interest on his Obligations, or the obligation of the Corporation to pay the principal or purchase price of and interest on each Obligation issued under the Resolutions to the Owner thereof at the time and place in said Obligation, if any, expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of the Resolutions, each Owner of any Obligation by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Resolutions or any Series Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding at least fifty-one percent (51%) in principal amount of the Most Senior Outstanding Obligations Outstanding, or to any suit instituted by any Holder of Most Senior Outstanding Obligations for the enforcement of the payment of any Most Senior Outstanding Obligation on or after the respective due date thereof expressed in such Obligation.

Appointment of Successor Trustee. (A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Corporation covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made within sixty (60) days after the Trustee shall have given to the Corporation written notice of its resignation as Trustee, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, each applicable Obligation Facility Provider may appoint a successor Trustee or any of the Trustee, the Owner of any Obligation or each applicable Obligation Facility Provider may apply to any court of competent jurisdiction to appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of the Resolutions shall be a corporation organized under the laws of the United States or of any state which is authorized to exercise trust powers and is subject to supervision or examination by federal or state authorities, having a capital, surplus and undivided profits aggregating at least \$75,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolutions and shall be an Eligible Lender.

Defeasance. (A) If the Corporation shall pay or cause to be paid to the Owners of the Obligations, or of the Obligations of any Series or any Subseries, or of any maturity within a Series or Subseries, the principal and interest to become due thereon, at the times and in the manner stipulated therein and in the Resolutions, and all obligations of the Corporation thereunder with respect to the Obligations or to the Obligations of such Series or Subseries, or to any maturity within a Series or Subseries, as applicable, with respect to the fees and expenses of or reimbursement of each applicable Obligation Facility Provider, with respect to the fees and expenses of each Fiduciary and with respect to certain requirements applicable to the Subordinate Series 2001B Bonds and any other Tax-Exempt Obligations, have been paid or otherwise performed or the payment or performance thereof has otherwise been provided for to the satisfaction of the Trustee and each applicable Obligation Facility Provider, then the pledge of any Revenues and other moneys, securities, funds and property constituting a part of the Trust Estate and all other rights granted hereby shall be discharged and satisfied with respect to the Obligations or to the Obligations of such Series or Subseries, or to any such maturity, as applicable. In such event, the Trustee shall, upon the written request of the Corporation, execute and deliver to the Corporation all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Corporation all moneys or securities held by them pursuant to the Resolutions which are not required for the payment of Obligations not theretofore surrendered for such payment. If the Corporation shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Obligations, or of the Obligations of any Series or Subseries, or of any maturity within a Series or Subseries, the principal and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolutions, such Obligations shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of the Corporation to the Owners of such Obligations shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Obligations or interest installments for the payment of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the Corporation of funds for such payment or otherwise) shall, at the maturity thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. All Obligations shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of said Obligations are to be redeemed on any date prior to their maturity, the Corporation shall have given to the Trustee in form satisfactory to it irrevocable written instructions to give notice as provided in the Resolutions of redemption on said date of such Obligations, (ii) there shall have been deposited with the Trustee either moneys or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on said Obligations on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event said Obligations are not by their terms subject to redemption within the next succeeding sixty days, the Corporation shall have given the Trustee in form satisfactory to it irrevocable written instructions to give notice to the Owners of such Obligations that the deposit required by (ii) above has been made with the Trustee and that said Obligations are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said Obligations. Neither Defeasance Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of or Redemption Price, if any, and interest on said Obligations; but any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on said Obligations on and prior to such maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Corporation, as received by the Trustee, free and clear of any trust, lien or pledge.

Appendix C
Audited Financial Statements of
the Corporation

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Report of Independent Accountants

To the Board of Directors of
Kentucky Higher Education
Student Loan Corporation

In our opinion, the accompanying general-purpose balance sheets, statements of revenues, expenses and changes in retained earnings, and cash flows present fairly, in all material respects, the financial position of Kentucky Higher Education Student Loan Corporation (the Corporation), a component unit of the Commonwealth of Kentucky, as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles generally accepted in the United States. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2000, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were performed for the purpose of forming an opinion on the general-purpose financial statements of the Corporation taken as a whole. The supplemental combining information contained on pages 16 through 19 is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. The supplemental combining information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

September 13, 2000

Kentucky Higher Education Student Loan Corporation
Statements of Revenues, Expenses, and Changes in Retained Earnings
Years ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Revenues:		
Interest Income:		
Loans	\$36,501,790	\$31,431,769
Special Allowance (note 4)	6,180,164	2,647,103
Investments	10,029,986	8,957,950
Total Interest Income	52,711,940	43,036,822
Commission on Debt Recovery (note 10)	1,896,371	2,476,809
Servicing Fees	747,753	842,855
Total Revenues	55,356,064	46,356,486
Expenses:		
Interest on Debt	32,431,628	25,036,627
Amortization of Bond Issuance Costs	439,417	471,065
Variable Bond Credit Facility and Remarketing Fees (note 9)	1,152,801	874,125
Provision for Arbitrage Liabilities (note 8)	2,495,869	1,901,807
Provision for Student Loan Losses	218,293	516,087
Amortization of Loan Purchase Premiums and Origination Costs	678,514	444,246
Depreciation and Amortization	429,155	427,186
Federal Consolidation Fees	884,340	748,075
Personnel and Professional Services	4,446,322	4,007,280
Technical Services (note 10)	1,066,660	1,420,182
Postage, Printing, and Telecommunications	774,923	789,362
Miscellaneous Services, Office, and Equipment	1,126,224	620,929
Other Expenses	779,742	681,310
Total Expenses	46,923,888	37,938,281
Income before Operating Transfers	8,432,176	8,418,205
Transfer (to) from Other Funds:		
Transfer to the Authority (note 10)	(3,000,000)	(3,000,000)
Net Income	5,432,176	5,418,205
Retained Earnings at Beginning of Year	59,986,149	54,567,944
Retained Earnings at End of Year	\$65,418,325	\$59,986,149

See accompanying notes to financial statements.

Kentucky Higher Education Student Loan Corporation

Balance Sheets

June 30, 2000 and 1999

Assets	2000	1999
Loans	\$529,881,155	\$407,807,637
Cash and Cash Equivalents (note 3)	99,366,775	124,923,450
Investments (note 3)	132,654,247	114,934,213
Accounts Receivable and Prepaid Expenses	1,017,289	1,869,311
Accrued Interest Income	14,336,328	10,269,958
Special Allowance Receivable (note 4)	2,022,682	623,083
Deferred Bond Issuance Costs, Net	4,034,595	3,622,435
Deferred Loan Purchase Premiums and Origination Costs, Net	4,486,019	2,622,667
Fixed Assets, Net	1,285,734	1,043,672
Total Assets	<u>\$789,084,824</u>	<u>\$667,716,426</u>
Liabilities and Fund Equity		
Revenue Bonds/Note Payable (notes 6, 7 & 9)	\$701,560,000	\$589,790,000
Accounts Payable and Accrued Expenses	2,769,340	2,273,325
Accrued Interest Expense	2,991,580	1,817,242
Allowance for Arbitrage Liabilities (note 8)	16,345,579	13,849,710
Total Liabilities	<u>723,666,499</u>	<u>607,730,277</u>
Fund Equity:		
Retained Earnings:		
Reserved (note 11)	57,426,364	51,844,073
Unreserved	7,991,961	8,142,076
Total Fund Equity	<u>65,418,325</u>	<u>59,986,149</u>
Total Liabilities and Fund Equity	<u>\$789,084,824</u>	<u>\$667,716,426</u>

See accompanying notes to financial statements.

Kentucky Higher Education Student Loan Corporation

Statements of Cash Flows

Years ended June 30, 2000 and 1999

	2000	1999
Cash Flows from Operating Activities:		
Principal Received on Loans	\$56,941,112	\$64,281,139
Interest on Loans	24,712,273	25,907,468
Special Allowance	4,780,564	3,341,631
Client Loan Receipts	34,225,170	44,482,532
Commission Received on Debt Recovery	3,038,151	3,129,380
Loans Purchased, including Premiums	(74,552,312)	(31,891,923)
Loans Originated, including Costs	(99,049,301)	(79,017,011)
Credit Facility Fees	(1,052,520)	(791,863)
Other Expenses	(7,920,975)	(8,878,648)
Loan Receipts Remitted to Clients	(34,418,157)	(45,323,640)
Transfer to the Authority	(3,000,000)	(3,000,000)
Net Cash Used in Operating Activities	(96,295,995)	(27,760,935)
Cash Flows from Investing Activities:		
Investment Income Received	9,618,982	8,912,893
Proceeds from Sales and Maturities of Investments	337,272,606	467,149,422
Purchases of Investments	(355,031,664)	(505,391,899)
Net Cash Used in Investing Activities	(8,140,076)	(29,329,584)
Cash Flows from Noncapital Financing Activities:		
Proceeds from Debt Issued	186,600,000	190,000,000
Debt Issuance Costs	(962,099)	(977,128)
Debt Principal Payments	(74,830,000)	(23,945,000)
Interest on Debt	(31,257,289)	(25,084,322)
Net Cash Provided by Noncapital Financing Activities	79,550,612	139,993,550
Cash Flows from Capital and Related Financing Activities		
Fixed Assets Acquired	(671,216)	(278,513)
Net Cash Used in Capital and Related Financing Activities	(671,216)	(278,513)
Net (Decrease)/Increase in Cash and Cash Equivalents	(25,556,675)	82,624,518
Cash and Cash Equivalents at Beginning of Year	124,923,450	42,298,932
Cash and Cash Equivalents at End of Year	\$99,366,775	\$124,923,450

See accompanying notes to financial statements.

Kentucky Higher Education Student Loan Corporation
Reconciliation of Net Income to Net Cash Provided by Operating Activities
Years ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Net Income	\$5,432,176	\$5,418,205
Income and Expense Items not Affecting Cash		
Provided by Operating Activities:		
Investment Income	(10,069,008)	(9,002,980)
Depreciation and Amortization	429,155	427,186
Amortization of Bond Issuance Costs	439,417	471,065
Amortization of Loan Purchase Premiums and Origination Costs	678,514	444,246
Debt Interest Expense	32,431,628	25,036,627
Provision for Loan Losses	218,293	516,087
Net Change in Fair Value of Investments	39,023	45,030
Items Not Accounted for as Revenues or Expenses:		
Principal Received on Loans	56,941,112	64,281,139
Loans Purchased, including Premiums	(74,552,312)	(31,891,923)
Loans Originated, including Costs	(99,049,301)	(79,017,011)
(Increase) Decrease in Assets:		
Accounts Receivable and Prepaid Expenses	852,020	(982,268)
Accrued Interest Receivable	(3,616,343)	(145,179)
Borrower Interest Converted to Principal	(8,173,174)	(5,379,123)
Special Allowance Receivable	(1,399,600)	694,527
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	606,536	(578,370)
Allowance for Arbitrage Liabilities	2,495,869	1,901,807
Net Cash Used by Operating Activities	<u>(\$96,295,995)</u>	<u>(\$27,760,935)</u>

See accompanying notes to financial statements.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(1) Description of Business and General Bond Resolutions

The Kentucky Higher Education Student Loan Corporation (Corporation) is an independent *de jure* municipal corporation established by the Kentucky General Assembly in 1978 to provide a loan finance program for post-secondary students in the Commonwealth of Kentucky. Governed by a Board of Directors, the Corporation is authorized to finance loans for students attending eligible post-secondary institutions, service and collect education loans, and issue bonds and notes not to exceed \$950,000,000 in order to carry out its corporate powers and duties. The Corporation's objectives are accomplished primarily through its secondary market program, which purchases loans from eligible lenders, and its lending program, which makes loans to parents and students directly. The Corporation also services education loans and collects defaulted education loans.

The Corporation's General Bond Resolutions and separate Series Resolutions for issue of Revenue Bonds contain provisions establishing funds and accounts for the segregation of assets and provisions restricting the use of the proceeds of bonds and other funds received.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Corporation's financial statements have been prepared in accordance with generally accepted accounting principles applicable to state government entities, which provide that financial activities operated similarly to private business enterprises be presented as separate proprietary funds. The Corporation follows all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Corporation uses the accrual basis of accounting. The Corporation is a component unit of the Commonwealth of Kentucky, and accordingly, its financial statements are also included in the Commonwealth of Kentucky's Comprehensive Annual Financial Report.

(b) Loan Losses

All loans are insured by the Kentucky Higher Education Assistance Authority (Authority) or the U. S. Department of Education. Management of the Corporation believes that the Authority will be able to honor all default claims presented by the Corporation. Loans made prior to October 1, 1993, are 100% insured. Loans made on or after October 1, 1993, are 100% insured against borrowers' death, disability, or bankruptcy and 98% insured against borrowers' default. The Corporation records a provision for loan losses based upon its expected default claims with respect to 98% insured loans. The allowance for loan losses was \$718,614 and \$669,375 as of June 30, 2000 and 1999, respectively.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

(c) Investments

Investments, which consist principally of securities of the federal government or its agencies and commercial paper, are stated at fair market value.

(d) Commission on Debt Recovery

The Corporation's fee for collection of defaulted education loans is recorded as commission revenue when payments are received. Defaulted loans are not presented on the balance sheet.

(e) Servicing Fees

The Corporation's fee for servicing loans held by third parties is recorded as servicing fee revenue as earned. These third-party loans are not presented on the balance sheet since they are not owned by the Corporation.

(f) Income Taxes

The Corporation is an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky and is therefore not subject to federal or state income taxes.

(g) Deferred Bond Issuance Costs

Bond issuance costs are deferred and amortized over the life of the bonds, utilizing the bonds outstanding method, which approximates the effective interest method.

(h) Deferred Loan Purchase Premiums and Deferred Loan Origination Costs

Loan purchase premiums and certain origination costs are deferred and amortized over the estimated life of the loans acquired or originated, based on projected balances outstanding, which approximates the effective interest method.

(i) Fixed Assets

Office furnishings, equipment, and system development costs are depreciated over their estimated useful lives using the straight-line method.

(j) Statement of Cash Flows

For the statement of cash flows, the Corporation considers cash and cash equivalents to be money market funds and investments which mature within one month of purchase.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

(k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(3) Cash and Investments

Cash and investments as of June 30, 2000, and 1999, are summarized below:

	2000	1999
Investments	\$132,654,247	\$114,934,213
Cash Equivalents	98,838,456	124,671,109
Cash	528,319	252,341
Total Cash and Investments	<u>\$232,021,022</u>	<u>\$239,857,663</u>

Deposits, identified as cash in the above summary, are as follows as of June 30, 2000, and 1999:

	2000		1999	
	Financial Statement Amount	Bank Balance	Financial Statement Amount	Bank Balance
Insured (FDIC)	\$200,000	\$200,000	\$200,000	\$200,000
Uninsured and uncollateralized	328,319	506,991	52,341	360,889
Total Deposits	<u>\$528,319</u>	<u>\$706,991</u>	<u>\$252,341</u>	<u>\$560,889</u>

The following is a summary of investments, including cash equivalents, categorized as of June 30, 2000, and 1999:

2000	Category			Uncategorized	Total
	1	2	3		
U.S. Treasury and Government Agency Obligations	\$96,486,027				\$ 96,486,027
Government Mutual Funds				\$ 8,642,934	8,642,934
Corporate Commercial Paper	90,356,993				90,356,993
Money Market Securities				36,006,749	36,006,749
Total Investments	<u>\$186,843,020</u>			<u>\$44,649,683</u>	<u>\$231,492,703</u>

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(3) Cash and Investments (continued)

1999	Category			Uncategorized	Total
	1	2	3		
U.S. Treasury and Government Agency Obligations	\$109,134,534				\$109,134,534
Government Mutual Funds				\$ 4,697,709	4,697,709
Corporate Commercial Paper	10,407,705				10,407,705
Money Market Securities				115,365,374	115,365,374
Total Investments	<u>\$119,542,239</u>			<u>\$120,063,083</u>	<u>\$239,605,322</u>

The Corporation's investments are categorized to give an indication of the level of risk assumed by the Corporation at year-end. Category 1 includes investments that are insured, registered, or for which the securities are held by the Corporation or its agent in the Corporation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the Corporation's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Corporation's name.

(4) Special Allowance

The U.S. Department of Education pays a special allowance to the Corporation after the end of each quarter representing supplemental interest on outstanding, insured loans. Prior to January 1, 2000, this interest was paid at a rate based on the quarterly average of the 91-day U.S. treasury bill rate. Effective January 1, 2000, holders of Stafford Loans disbursed during the period from January 1, 2000 through June 30, 2003, receive special allowance at a rate based upon the average of the bond equivalent rates of the 3-month commercial paper rate as reported by the U.S. Federal Reserve, and continue to receive special allowance based on U.S. treasury bills on the other eligible loans.

(5) Retirement Plan

The Corporation provides retirement benefits to all full-time employees through the Kentucky Employees Retirement System (KERS). KERS is a multiple-employer, defined benefit plan sponsored by the Commonwealth of Kentucky, which provides retirement, disability, and death benefits. The Corporation contributed 8.03% for the years ended June 30, 2000 and 1999. The employees contributed 5% of their gross wages to the plan for the years ended June 30, 2000 and 1999. Such rates are intended to provide for normal costs on a current basis, plus an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. These contribution rates are determined by the Board of Trustees of the Kentucky Retirement Systems each biennium. The payroll of employees covered by the retirement plan was \$3,286,922 and \$3,021,633 for the years ended June 30, 2000 and

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(5) Retirement Plan (continued)

1999, respectively. Total payroll for the years ended June 30, 2000 and 1999, was \$3,553,741 and \$3,213,157, respectively. KERS participants have fully vested interests after the completion of sixty months of service, twelve months of which are current service. The KERS contribution requirement for the years ended June 30, 2000 and 1999, was \$423,956 and \$389,013 respectively, which consisted of employer contributions \$261,302 and \$162,654 from employees in 2000 and \$242,641 in employer contributions and \$146,372 from employees in 1999.

Although separate measurements of assets and pension benefit obligation are not available for individual employers, KERS's June 30, 1999 annual financial report (which is a matter of public record) contains this information for KERS as a whole.

(6) Revenue Bonds

At June 30, 2000, and 1999, Revenue Bonds consist of the following:

Series	Scheduled Maturity	Interest Rate	2000	1999
Insured Student Loan Revenue Bonds, Pursuant to 1983 General Bond Resolution:				
1985 Series A	June 1, 2001*	9.25%	\$13,150,000	\$13,150,000
1991 Series B	Semi-annually in various amounts through June 1, 2003	6.50% to 6.80%	9,370,000	17,730,000
1991 Series C	Semi-annually in various amounts through June 1, 2002	6.25% to 6.50%	5,070,000	9,815,000
1991 Series D	Semi-annually in various amounts through December 1, 2011	6.65% to 7.10%	8,425,000	11,000,000
1991 Series E	December 1, 2011	Weekly **	46,000,000	46,000,000
1993 Series A	Semi-annually in various amounts through December 1, 2000	4.70%	4,740,000	10,865,000
1993 Series B	Semi-annually in various amounts through June 1, 2005	4.90% to 5.30%	90,000,000	90,000,000
1993 Series C	Various amounts through June 1, 2002	4.95% to 5.15%	4,160,000	7,015,000
1994 Series A	Various amounts through June 1, 2002	6.25%	4,500,000	9,820,000
1994 Series B	Various amounts through June 1, 2002	6.60%	3,435,000	7,410,000
1995 Series A	Various amounts through June 1, 2002	4.90%	2,655,000	6,410,000
1995 Series B	June 1, 2003	5.15%	750,000	750,000
1995 Series C	June 1, 2003	5.45%	3,000,000	3,000,000
1996 Series A	June 1, 2026	Weekly **	25,000,000	25,000,000
1996 Series B	June 1, 2003	5.15%	2,500,000	2,500,000
1997 Series A	Various amounts through June 1, 2002	4.90%	1,160,000	1,495,000

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(6) Revenue Bonds (continued)

Series	Scheduled Maturity	Interest Rate	2000	1999
1997 Series B	June 1, 2003	5.15%	1,000,000	1,000,000
1997 Series C	Various amounts through June 1, 2002	5.15%	645,000	830,000
1997 Series D	June 1, 2003	5.40%	1,000,000	1,000,000
Student Loan Revenue Bonds, Pursuant to 1997 General Bond Resolution:				
Senior Series 1997-A-1	May 1, 2027	Every 35 Days **	45,250,000	45,250,000
Senior Series 1997-A-2	May 1, 2027	Every 35 Days **	45,200,000	45,200,000
Subordinate Series 1997-B	May 1, 2027	Every 35 Days **	44,550,000	44,550,000
Senior Series 1998A-1	May 1, 2028	Every 35 Days **	36,400,000	36,400,000
Senior Series 1998A-2	May 1, 2028	Every 35 Days **	36,400,000	36,400,000
Senior Series 1998B	May 1, 2028	Every 35 Days **	42,200,000	42,200,000
Senior Series 1999A	May 1, 2029	Every 28 Days **	51,350,000	51,350,000
Senior Series 1999B	May 1, 2029	Every 35 Days **	23,650,000	23,650,000
Senior Series 2000A-1	May 1, 2030	Every 28 Days **	42,100,000	N/A
Senior Series 2000A-2	May 1, 2030	Every 28 Days **	42,100,000	N/A
Senior Series 2000A-3	May 1, 2030	Every 28 Days **	42,050,000	N/A
Senior Series 2000B	May 1, 2030	Every 28 Days **	23,750,000	N/A
Total Revenue Bonds			<u>\$701,560,000</u>	<u>\$589,790,000</u>

*The June 1, 2001, term bonds are subject to mandatory redemption based on specified default claims payments and cumulative sinking fund redemptions, which have been reflected in the principal debt repayment schedule which follows.

** Variable interest rate changes based on specified indices.

All Revenue Bonds except for the Senior Series 1997-A-1 and 1997-A-2, Senior Series 1998A-1 and 1998A-2, Senior Series 1999A, and Senior Series 2000A-1 and 2000A-2 are tax-exempt issues.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(6) Revenue Bonds (continued)

Principal debt repayments for all bonds outstanding are summarized as follows:

Year Ending June 30	Principal Repayment Amount (Thousands)	Balance Outstanding (Thousands)	Average Interest Rate (%)
2001	\$25,825	\$675,735	5.80
2002	36,965	638,770	5.45
2003	30,540	608,230	5.39
2004	19,715	588,515	5.46
2005	37,680	550,835	5.55
2006	845	549,990	7.08
2007	995	548,995	7.09
2008	560	548,435	7.10
2009	1,960	546,475	7.10
2010	70	546,405	7.10
2011	75	546,330	7.10
2012	330	546,000	7.10
2012	46,000	500,000	Variable
2026	25,000	475,000	Variable
2027	135,000	340,000	Variable
2028	115,000	225,000	Variable
2029	75,000	150,000	Variable
2030	150,000	0	Variable

All assets of the 1983 General Bond Resolution Fund and 1997 General Bond Resolution Fund are pledged for repayment of the specific bond issues under each resolution.

(7) Credit Line

On November 1, 1999, the Corporation entered into a Line of Credit Agreement Note with Bank of America, N.A., providing for advances to the Corporation not to exceed an aggregate outstanding total of \$40,000,000. The borrowing period ends December 31, 2002. At June 30, 2000, there are no advances outstanding under this credit line

(8) Allowance for Arbitrage Liabilities

Certain of the Corporation's tax-exempt bond issues subject the Corporation to potential arbitrage liabilities under U.S. tax law. Arbitrage liabilities, under current federal income tax law regarding tax-exempt bond issues, consist of three types, which are arbitrage rebate, forgiveness, and yield adjustment payments. The liability for yield adjustment payments and forgiveness was \$15,817,963 and \$13,455,008 as of June 30, 2000 and

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(8) Allowance for Arbitrage Liabilities (continued)

1999, respectively. The Corporation had a \$527,616 and \$394,702 liability for arbitrage rebate as of June 30, 2000 and 1999, respectively.

Arbitrage rebate is applicable to all of the Corporation's tax-exempt bonds except the 1985 Series A. With certain limited exceptions, income earned on non-purpose investments (investments other than student loans), which exceeds the bond yield (arbitrage yield, as defined), must be rebated to the U.S. Treasury. Payments of at least 90% are due every five years after the year of issuance, and upon final maturity of bonds.

Forgiveness is applicable to the 1991 Series B & C, 1993 Series A, B & C, 1994 Series A & B, 1995 Series A, B & C, 1996 Series B, and 1997 Series A, B, C, & D bonds. In general, a yield restriction is imposed on acquired purpose investments, designating the allowable yield as 1.5% above the bond yield (arbitrage yield, as defined), with the federal special allowance excluded from income. Impact of the yield restriction (loss of tax-exempt status) may be avoided by partial forgiveness of the applicable student loans. Forgiveness can be applied upon maturity of the bonds or as otherwise prescribed by the bond resolutions.

Yield adjustment payments, which also relate to yield restriction on acquired purpose investments, are applicable to the 1991 Series D & E Bonds, 1996 Series A, Subordinate Series 1997-B, Senior Series 1998B, Senior Series 1999B, Senior Series 2000B, and any future issues except certain refunding issues. The allowable yield is 2% above the bond yield (arbitrage yield, as defined), with the federal special allowance included in income. Impact of the yield restriction (loss of tax-exempt status) may be avoided by rebating the excess yield to the U.S. Treasury every 10 years, and upon final maturity of the bonds.

The determination of excess yield on acquired purpose investments is cumulative over the life of the applicable bond series, as is the determination of arbitrage rebate on non-purpose investments, except for variable rate bonds for which arbitrage rebate is generally determined for each five-year period without retroactivity.

(9) Credit and Liquidity Facilities and Bond Remarketing

The 1991 Series E Bonds are collateralized with a Standby Bond Purchase Agreement, pursuant to which Credit Suisse will purchase any bonds not remarketed, and a Municipal Bond Insurance Policy issued by AMBAC Indemnity Corporation, which secures payment of principal and interest on the bonds. The Standby Bond Purchase Agreement expires June 24, 2001, unless it is renewed, and the Municipal Bond Insurance Policy extends through the term of the 1991 Series E Bonds, December 1, 2011.

The 1996 Series A Bonds are collateralized with a Standby Bond Purchase Agreement, pursuant to which Landesbank Hessen-Thüringen Girozentrale will purchase any bonds not remarketed, and a Municipal Bond Insurance Policy issued by MBIA Insurance Corporation, which secures payment of principal and interest on the bonds. The

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(9) Credit and Liquidity Facilities and Bond Remarketing (continued)

Standby Bond Purchase Agreement expires September 12, 2002. The Municipal Bond Insurance Policy extends through the term of the 1996 Series A Bonds, June 1, 2026.

The Corporation pays certain fees with respect to its variable rate bonds to auction agents, broker dealers, market agents, remarketing agents, and tender agents for remarketing bonds or conducting auctions of bonds. These arrangements are generally cancellable with prior notice by either party.

(10) Related Party Transactions

The chairman and an *ex officio* non-voting member of the Authority's Board of Directors are voting members on the Corporation's Board of Directors. One member of the Authority's management serves in a similar capacity for the Corporation.

During the years ended June 30, 2000 and 1999, the Corporation incurred expenses of \$582,764 and \$1,103,858 for technical services and \$404,344 and \$353,646 for document processing services provided by the Authority. For the years ended June 30, 2000 and 1999, the Corporation also incurred expenses of \$171,095 and \$111,900 for loan origination and disbursement services provided by the Authority. Pursuant to a separate agreement, the Corporation collects certain defaulted student loans for the Authority. Fee income recognized with respect to loan collection services for the years ended June 30, 2000 and 1999 was \$1,733,610 and \$2,327,111, respectively.

Amounts due to and from the Authority at June 30, 2000, and 1999, are as follows:

	<u>2000</u>	<u>1999</u>
Due to the Authority	\$102,944	\$ 93,042
Due from the Authority	50,944	407,250

Substantially all loans purchased or made by the Corporation are insured by the Authority.

On August 9, 1999, and October 1, 1999, the Corporation made transfers totaling \$3.0 million to the Authority for support of state student financial aid programs, as approved by the Corporation's Board of Directors on May 22, 1998, pursuant to Section 508(c) of the 1983 General Bond Resolution. The Corporation's Board of Directors approved similar transactions totaling \$3.0 million on April 28, 2000, and on July 3, 2000, the Corporation transferred \$1.5 million to the Authority. The remaining \$1.5 million is expected to be transferred in January 2001.

Certain members of the Corporation's Board of Directors serve as officers or directors of lending institutions. In the normal course of business, the Corporation purchases loans from these institutions, and the institutions refer borrowers to the Corporation for loans.

Kentucky Higher Education Student Loan Corporation

Notes to Financial Statements

(11) Reserved Retained Earnings

Reserved retained earnings consist of: (a) 100% of retained earnings of the Education Finance Funds as required by the 1983 and 1997 General Bond Resolutions and the separate Series Resolutions; and (b) an amount equal to one-half of the Corporation's budgeted operating expenses for the upcoming fiscal year, pursuant to action of the Board of Directors.

(12) Commitments and Contingencies

The Corporation has entered into loan purchase contracts with various eligible lenders. Subject to the terms and conditions of these agreements, the Corporation on June 30, 2000, had plans to purchase approximately \$152,000,000 of loans. These contracts cannot be terminated by either party.

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Appendix D

Proposed Forms of Approving Opinions of Bond Counsel

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PROPOSED FORMS OF APPROVING OPINIONS OF BOND COUNSEL

Bond Counsel proposes to deliver its final approving opinion upon the delivery of the Senior Series 2001A Bonds, in substantially the form which follows.

[LETTERHEAD OF HAWKINS, DELAFIELD & WOOD]

July 27, 2001

Kentucky Higher Education Student
Loan Corporation
Louisville, Kentucky

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$119,700,000 Taxable Student Loan Revenue Bonds, Senior Series 2001A (the "Senior Series 2001A Bonds"), of the Kentucky Higher Education Student Loan Corporation (the "Corporation"), a public body corporate and politic constituting an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky.

The Senior Series 2001A Bonds have been authorized and issued pursuant to Chapter 164A of the Kentucky Revised Statutes, as amended (the "Act"), a 1997 General Bond Resolution adopted by the Corporation on May 9, 1997 (the "General Resolution") and the Series 2001A Bond Resolution which specifically authorized the Senior Series 2001A Bonds (the "Series Resolution"), approved by operation of the authorizing resolutions adopted by the Corporation on April 20, 2001 and July 20, 2001 (the "Authorizing Resolutions"). Certain capitalized terms used but not defined herein are as defined for purposes of the Series Resolution. Pursuant to the General Resolution, the Authorizing Resolutions and the Series Resolution, the Corporation has authorized the issuance of the Senior Series 2001A Bonds for the purposes of providing funds for the financing of Student Loans.

The Senior Series 2001A Bonds, dated July 27, 2001, are scheduled to mature on the dates and in the principal amounts and will bear interest at the rates determined as provided in the Series Resolution.

The Senior Series 2001A Bonds are issuable as fully registered bonds in the denomination of \$50,000 and any integral multiple thereof. The Senior Series 2001A Bonds are subject to exchange, to conversion and to redemption prior to maturity and are payable upon the terms and conditions set forth therein, in the General Resolution and in the Series Resolution.

Pursuant to the Act, the General Resolution and the Authorizing Resolutions, the Corporation is authorized to issue the Senior Series 2001A Bonds. The Senior Series 2001A Bonds constitute Senior Obligations entitled to the equal benefit, protection and security of the provisions and covenants of the General Resolution and the Series Resolution with respect to Senior Obligations.

The General Resolution and the Series Resolution provide that the pledges and assignments made thereby and the provisions, covenants and agreements of the Corporation therein set forth shall be for the equal benefit, protection and security of the Owners of any and all Obligations, each of which shall be of equal rank without preference, priority or distinction, except as expressly provided therein. The General Resolution and the Series Resolution further provide that the Senior Series 2001A Bonds and all other Senior Obligations shall have the same priority of claim as to payment under the General Resolution, which priority shall be senior to that of all Obligations other than Senior Obligations. The Corporation reserves the right to issue Additional Obligations under the General Resolution which are equal to or subordinate in such priority to the Senior Series 2001A Bonds.

The General Resolution and the Series Resolution provide that nonpayment of the principal of or interest on Subordinate Obligations, including Senior Subordinate Obligations, occurring while any Obligations which are senior in priority of claim as to payment under the General Resolution and the Series Resolution to the Obligations affected, and which are not affected by such nonpayment, remain Outstanding, shall not result in an Event of Default under the General Resolution and the Series Resolution that would give rise to a right on the part of Owners of affected Obligations to accelerate the affected Obligations or to exercise any other remedy. The General Resolution and the Series Resolution further provide: (i) that only Owners of Obligations which are not subordinate in priority of claim as to payment thereunder to any other Outstanding Obligations, such as the Senior Series 2001A Bonds, may exercise any remedy or right of enforcement or consent to any action thereunder; and (ii) that the exercise by such Owners of the remedy of acceleration in response to an Event of Default which does not result from nonpayment of the principal of or interest on Obligations is conditioned upon the consent of all Owners of Outstanding Obligations.

The General Resolution and the Series Resolution provide that Owners of the Senior Series 2001A Bonds will have no claim to any amounts properly distributed from the Trust Estate from time to time pursuant to the General Resolution and that the recipients of such amounts shall in no event be required to refund such distributed amounts.

We are of the opinion that:

1. The Corporation is a duly organized and existing independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky, pursuant to the Constitution and laws of the Commonwealth of Kentucky.

2. The Corporation has valid right and lawful authority to adopt the General Resolution, the Authorizing Resolutions and the Series Resolution, to issue its Student Loan Revenue Bonds, including the Senior Series 2001A Bonds, pursuant to the General Resolution, the Authorizing Resolutions and the Series Resolution and to perform its duties, obligations and covenants pursuant to the terms and conditions of the General Resolution and the Series Resolution including the financing and refinancing of Student Loans.

3. The General Resolution, the Authorizing Resolutions and the Series Resolution have been duly and validly adopted by the Corporation, are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms.

4. The Senior Series 2001A Bonds have been duly authorized and issued by the Corporation in accordance with the Constitution and laws of the Commonwealth of Kentucky, including the General Resolution, the Authorizing Resolutions and the Series Resolution.

5. The Senior Series 2001A Bonds are valid and binding special and limited obligations of the Corporation, enforceable in accordance with their terms and the terms of the General Resolution and the Series Resolution and entitled to the benefits of the Act, the General Resolution, the Authorizing Resolutions and the Series Resolution. As provided by the General Resolution, the Senior Series 2001A Bonds are secured by a pledge of certain revenues, assets and funds of the Corporation, including: (i) the proceeds of the sale of the Senior Series 2001A Bonds; (ii) the Revenues and Loans; and (iii) all moneys and investments held in any of the funds and accounts established by the General Resolution (other than the Rebate Fund), subject to the provisions of the General Resolution and the Series Resolution permitting the use, application and disposal thereof. Pursuant to Section 164A.100 of the Act, such pledge is valid and binding and the lien of such pledge as security for the payment of the Senior Series 2001A Bonds, on a basis of parity with all other Obligations secured thereby and subject to the provisions of the General Resolution and the Series Resolution permitting the use, application and disposal thereof, is valid and binding as against any and all parties having claims against the Corporation.

6. The Senior Series 2001A Bonds do not constitute a debt, liability or other obligation of the Commonwealth of Kentucky, and neither the faith and credit nor the taxing power of the Commonwealth of Kentucky is pledged to the payment of the principal of or interest on the Senior Series 2001A Bonds.

7. Under existing statutes, the Senior Series 2001A Bonds, the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth.

In rendering this opinion, we are advising you that the enforceability of the Bonds, the General Resolution and the Series Resolution may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Senior Series 2001A-1 Bond and an executed Senior Series 2001A-2 Bond and, in our opinion, the respective forms of said Senior Series 2001A-1 Bond and Senior Series 2001A-2 Bond and their execution are regular and proper.

Very truly yours,

Bond Counsel proposes to deliver its final approving opinion upon the delivery of the Subordinate Series 2001B Bonds, in substantially the form which follows.

[LETTERHEAD OF HAWKINS, DELAFIELD & WOOD]

July 27, 2001

Kentucky Higher Education Student
Loan Corporation
Louisville, Kentucky

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$30,300,000 Student Loan Revenue Bonds, Subordinate Series 2001B (the "Subordinate Series 2001B Bonds"), of the Kentucky Higher Education Student Loan Corporation (the "Corporation"), a public body corporate and politic constituting an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky.

The Subordinate Series 2001B Bonds have been authorized and issued pursuant to Chapter 164A of the Kentucky Revised Statutes, as amended (the "Act"), a 1997 General Bond Resolution adopted by the Corporation on May 9, 1997 (the "General Resolution") and the Series 2001B Bond Resolution which specifically authorized the Subordinate Series 2001B Bonds (the "Series Resolution"), approved by operation of the authorizing resolutions adopted by the Corporation on April 20, 2001 and July 20, 2001 (the "Authorizing Resolutions"). Certain capitalized terms used but not defined herein are as defined for purposes of the Series Resolution. Pursuant to the General Resolution, the Authorizing Resolutions and the Series Resolution, the Corporation has authorized the issuance of the Subordinate Series 2001B Bonds for the purposes of providing funds for the financing of Student Loans.

The Subordinate Series 2001B Bonds, dated July 27, 2001, are scheduled to mature on the dates and in the principal amounts and will bear interest at the rates per annum as set forth in the Series Resolution.

The Subordinate Series 2001B Bonds are issuable as fully registered bonds in the denomination of \$50,000 and any integral multiple thereof. The Subordinate Series 2001B Bonds are subject to exchange, to conversion and to redemption prior to maturity and are payable upon the terms and conditions set forth therein, in the General Resolution and in the Series Resolution.

Pursuant to the Act, the General Resolution and the Authorizing Resolutions, the Corporation is authorized to issue the Subordinate Series 2001B Bonds. The Subordinate Series 2001B Bonds constitute Subordinate Obligations entitled to the equal benefit, protection and security of the provisions and covenants of the General Resolution and the Series Resolution with respect to Subordinate Obligations, other than Senior Subordinate Obligations, of equal class as the Subordinate Series 2001B Bonds.

The General Resolution and the Series Resolution provide that the pledges and assignments made thereby and the provisions, covenants and agreements of the Corporation therein set forth shall be for the equal benefit, protection and security of the Owners of any and all Obligations, each of which shall be of equal rank without preference, priority or distinction, except as expressly provided therein. The General Resolution and the Series Resolution further provide that the Subordinate Series 2001B Bonds and all other Subordinate Obligations other than Senior Subordinate Obligations, having the same priority by the applicable Series Resolution authorizing their issuance shall constitute a Class thereunder which shall have the same priority of claim as to payment under the General Resolution, which priority shall be: (i) senior to that of all other Subordinate Obligations expressly identified in a series resolution as subordinate to such Class, and to all Obligations having the same priority of claim as to payment as do Subordinated Obligations so expressly identified; (ii) subordinate to that of any Senior Obligations and Senior Subordinated Obligations; and (iii) subordinate to that of all other Subordinated Obligations expressly identified in a series resolution as senior to such Class and to all Obligations having the same priority of claim as to payment as do Subordinated Obligations so expressly identified, in each case while Outstanding under the General Resolution and the Series Resolution. The Corporation is issuing its Taxable Student Loan Revenue

Bonds, Senior Series 2001A, which are Senior Obligations under the General Resolution, concurrently with the issuance of the Subordinate Series 2001B Bonds. The Corporation reserves the right to issue Additional Obligations under the General Resolution which are senior, equal to or subordinate in such priority to the Subordinate Series 2001B Bonds.

The General Resolution and the Series Resolution provide that nonpayment of the principal of or interest on Subordinate Obligations, including Senior Subordinate Obligations, occurring while any Obligations which are senior in priority of claim as to payment under the General Resolution and the Series Resolution to the Obligations affected, and which are not affected by such nonpayment, remain Outstanding, shall not result in an Event of Default under the General Resolution and the Series Resolution that would give rise to a right on the part of Owners of affected Obligations to accelerate the affected Obligations or to exercise any other remedy. The General Resolution and the Series Resolution further provide: (i) that only Owners of Obligations which are not subordinate in priority of claim as to payment thereunder to any other Outstanding Obligations may exercise any remedy or right of enforcement or consent to any action thereunder; and (ii) that the exercise by such Owners of the remedy of acceleration in response to an Event of Default which does not result from nonpayment of the principal of or interest on Obligations is conditioned upon the consent of all Owners of Outstanding Obligations.

The General Resolution and the Series Resolution provide that Owners of the Subordinate Series 2001B Bonds will have no claim to any amounts properly distributed from the Trust Estate from time to time pursuant to the General Resolution and that the recipients of such amounts shall in no event be required to refund such distributed amounts.

We are of the opinion that:

1. The Corporation is a duly organized and existing independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky, pursuant to the Constitution and laws of the Commonwealth of Kentucky.

2. The Corporation has valid right and lawful authority to adopt the General Resolution, the Authorizing Resolutions and the Series Resolution, to issue its Student Loan Revenue Bonds, including the Subordinate Series 2001B Bonds, pursuant to the General Resolution, the Authorizing Resolutions and the Series Resolution and to perform its duties, obligations and covenants pursuant to the terms and conditions of the General Resolution and the Series Resolution including the financing and refinancing of Student Loans.

3. The General Resolution, the Authorizing Resolutions and the Series Resolution have been duly and validly adopted by the Corporation, are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms.

4. The Subordinate Series 2001B Bonds have been duly authorized and issued by the Corporation in accordance with the Constitution and laws of the Commonwealth of Kentucky, including the General Resolution, the Authorizing Resolutions and the Series Resolution.

5. The Subordinate Series 2001B Bonds are valid and binding special and limited obligations of the Corporation, enforceable in accordance with their terms and the terms of the General Resolution and the Series Resolution and entitled to the benefits of the Act, the General Resolution, the Authorizing Resolutions and the Series Resolution. As provided by the General Resolution, the Subordinate Series 2001B Bonds are secured by a pledge of certain revenues, assets and funds of the Corporation, including: (i) the proceeds of the sale of the Subordinate Series 2001B Bonds; (ii) the Revenues and Loans; and (iii) all moneys and investments held in any of the funds and accounts established by the General Resolution (other than the Rebate Fund), subject to the provisions of the General Resolution and the Series Resolution permitting the use, application and disposal thereof. Pursuant to Section 164A.100 of the Act, such pledge is valid and binding and the lien of such pledge as security for the payment of the Subordinate Series 2001B Bonds, on a basis of parity with all other Obligations secured thereby and subject to the provisions of the General Resolution and the Series Resolution permitting the use, application and disposal thereof, is valid and binding as against any and all parties having claims against the Corporation.

6. The Subordinate Series 2001B Bonds do not constitute a debt, liability or other obligation of the Commonwealth of Kentucky, and neither the faith and credit nor the taxing power of the Commonwealth of Kentucky is pledged to the payment of the principal of or interest on the Subordinate Series 2001B Bonds.

7. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Subordinate Series 2001B Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Subordinate Series 2001B Bonds will be treated as a preference item in calculating the alternative minimum tax imposed under the Code on individuals and corporations.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Subordinate Series 2001B Bonds in order that interest on the Subordinate Series 2001B Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Subordinate Series 2001B Bond proceeds, yield and other restrictions on the investment of Subordinate Series 2001B Bond proceeds prior to expenditure and the arbitrage rebate requirement that certain excess earnings on the Subordinate Series 2001B Bond proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Subordinate Series 2001B Bonds to become included in gross income for federal income tax purposes retroactive to their date of issue, irrespective of the date on which such noncompliance is ascertained.

The Corporation has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Subordinate Series 2001B Bonds from gross income under Section 103 of the Code.

In rendering the opinion in paragraph 7 hereof, we have relied upon and assumed: (i) the material accuracy of the representations, statements of intention and reasonable expectation and certifications of fact contained in the Tax Regulatory Agreement dated July 27, 2001 (the "Tax Regulatory Agreement") with respect to matters affecting the status of interest paid on the Subordinate Series 2001B Bonds; and (ii) compliance by the Corporation with the procedures and covenants set forth in the Tax Regulatory Agreement.

8. Under existing statutes, the Subordinate Series 2001B Bonds, the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth.

In rendering this opinion, we are advising you that the enforceability of the Bonds, the General Resolution and the Series Resolution may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Subordinate Series 2001B Bonds, or under state and local tax law.

We have examined an executed Subordinate Series 2001B Bond and, in our opinion, the form of said Subordinate Series 2001B Bond and its execution are regular and proper.

Very truly yours,

Appendix E-1

Auction Procedures for the Senior Series 2001A Bonds

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AUCTION PROCEDURES FOR THE SENIOR SERIES 2001A BONDS

If not otherwise defined below, capitalized terms used below will have the meanings given such terms in the Resolutions (and described in Appendix B of this Official Statement). The procedures described in this Appendix E-1 apply only to the Senior Series 2001A Bonds which are referred to in this Appendix E-1 as Auction Rate Securities and apply to each Series of Auction Rate Securities separately.

Definitions

The following definitions apply to this Appendix E-1:

“Agent Member” shall mean a member of, or participant in, the Securities Depository.

“All-Hold Rate” shall mean eighty-five percent (85%) of the Applicable LIBOR Rate.

“Applicable LIBOR Rate” shall mean, (a) for Auction Periods of 35 days or less, One-Month LIBOR, (b) for Auction Periods of more than 35 days but less than 91 days, Three-Month LIBOR, (c) for Auction Periods of more than 90 days but less than 181 days, Six-Month LIBOR, and (d) for Auction Periods of more than 180 days, One-Year LIBOR. As used in this definition and otherwise in this Appendix E-1, the terms “One-Month LIBOR,” “Three-Month LIBOR,” “Six-Month LIBOR” or “One-Year LIBOR,” shall mean the rate of interest per annum equal to the rate per annum at which United States dollar deposits having a maturity of one month, three months, six months or one year, respectively, are offered to prime banks in the London interbank market which appear on Telerate Page 3750 (or if such rate does not appear on Telerate Page 3750, then as it appears on the Reuters Screen LIBO Page) as of approximately 11:00 A.M., London time, on the Rate Determination Date. If such rate does not appear on Telerate Page 3750, the rate for that day shall be determined on the basis of the Reuters Screen LIBO Page. If at least two such quotations appear, One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, will be the arithmetic mean (rounded upwards, if necessary, to the nearest one-hundredth of one percent) of such offered rates. If fewer than two such quotes appear, One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, with respect to such Interest Period will be determined at approximately 11:00 A.M., London time, on such Rate Determination Date on the basis of the rate at which deposits in United States dollars having a maturity of one month, three months, six months or one year, respectively, are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Auction Agent and in a principal amount of not less than U.S. \$1,000,000 and that is representative for a single transaction in such market at such time. The Auction Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two quotations are provided, One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, will be the arithmetic mean (rounded upwards, if necessary, to the nearest one-hundredth of one percent) of such offered rates. If fewer than two quotations are provided, One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, with respect to such Interest Period will be the arithmetic mean (rounded upwards, if necessary to the nearest one-hundredth of one percent) of the rates quoted at approximately 11:00 A.M., New York City time on such Rate Determination Date by three major banks in New York, New York selected by the Auction Agent for loans in United States dollars to leading European banks having a maturity of one month, three months, six months or one year, respectively, and in a principal amount equal to an amount of not less than U.S. \$1,000,000 and that is representative for a single transaction in such market at such time; provided, however, that if the banks selected as aforesaid are not quoting as mentioned in this sentence, One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, in effect for the Interest Period will be One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, in effect for the immediately preceding Interest Period.

“ARS Distribution Date” shall mean Interest Payment Date.

“Auction” shall mean the implementation of the Auction Procedures on a Rate Determination Date.

“Auction Agent” shall mean the Initial Auction Agent unless and until a Substitute Auction Agent Agreement becomes effective, after which the Auction Agent shall mean the Substitute Auction Agent.

“Auction Agent Agreement” shall mean the Initial Auction Agent Agreement unless and until a Substitute Auction Agent Agreement is entered into, after which Auction Agent Agreement shall mean such Substitute Auction Agent Agreement.

“Auction Agent Fee” shall have the meaning set forth in the Auction Agent Agreement.

“Auction Agent Fee Rate” shall have the meaning set forth in the Auction Agent Agreement.

“Auction Date” shall mean the date on which an Auction is held.

“Auction Period” shall mean the Interest Period applicable to the Auction Rate Securities generally consisting of twenty-eight (28) days, which, after the Initial Period, shall begin on a Rate Adjustment Date through and end on, and include, the day immediately preceding the next succeeding Rate Adjustment Date.

“Auction Period Adjustment” shall have the meaning set forth in this Appendix E-1 under the section titled “Changes in Auction Terms – *Changes in Auction Period or Periods.*”

“Auction Period Conversion” shall mean the change in the length of an Auction Period (i) from an Auction Period between seven (7) and ninety-one (91) days, inclusive, to an Auction Period between ninety-two (92) days and the stated maturity of the Auction Rate Securities, inclusive, (ii) from an Auction Period between ninety-two (92) days and the stated maturity of the Auction Rate Securities, inclusive, to an Auction Period between seven (7) and ninety-one (91) days, inclusive, or (iii) from an Auction Period between ninety-two (92) days and the stated maturity of the Auction Rate Securities, inclusive, to an Auction Period between ninety-two (92) days and the stated maturity of the Auction Rate Securities, inclusive, if such latter Auction Period is at least three (3) months shorter or at least three (3) months longer than the Auction Period for the Auction Rate Securities established either upon initial issuance of the Auction Rate Securities or pursuant to an Auction Period Conversion, whichever has occurred most recently.

“Auction Period Conversion Date” shall mean the date on which an Auction Period Conversion is effective which is required to occur only on an ARS Distribution Date.

“Auction Procedures” shall mean the procedures set forth in this Appendix E-1 under the section titled “Auction Procedures.”

“Auction Rate” shall mean the interest rate that results from implementation of the Auction Procedures as described below in “Auction Procedures.”

“Auction Rate Securities” shall mean any Subseries of the Senior Series 2001A Bonds bearing interest at an Auction Rate.

“Authorized Denomination” shall mean: (i) \$50,000 or any integral multiple thereof, while the Senior Series 2001A Bonds are bearing interest at an Auction Rate; (ii) \$100,000 or any integral multiple thereof, while the Senior Series 2001A Bonds are bearing interest at a Variable Rate, unless the Corporation shall specify other Authorized Denominations by a Certificate of an Authorized Officer delivered upon the applicable Conversion Date; and (iii) \$5,000 or any integral multiple thereof, while the Senior Series 2001A Bonds are bearing interest at a Fixed Rate, unless the Corporation shall specify other Authorized Denominations by a Certificate of an Authorized Officer delivered upon the applicable Conversion Date.

“Available Auction Rate Securities” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Sell Orders.*”

“Bid” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Submission of Orders.*”

“Bid Auction Rate” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Determination of Sufficient Clearing Bids and Auction Rate.*”

“Bidder” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Submission of Orders.*”

“Book-Entry Form” or “Book-Entry System” shall mean a form or system under which (i) the beneficial right to principal and interest may be transferred only through a book entry, (ii) physical securities in registered form are issued only to a Securities Depository or its nominee as Registered Owner, with the securities “immobilized” to the custody of the Securities Depository, and (iii) the book entry is the record that identifies the owners of beneficial interests in that principal and interest.

“Broker-Dealer” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Participants – *Broker-Dealer.*”

“Broker-Dealer Agreement” shall mean each agreement between the Auction Agent and a Broker-Dealer, approved by the Corporation, pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented. Each Broker-Dealer Agreement shall be substantially in the form of the Broker-Dealer Agreement, to be dated as of July 1, 2001, between Bankers Trust Company, as Auction Agent, and Salomon Smith Barney Inc., as Broker-Dealer.

“Broker-Dealer Fee” shall have the meaning set forth in the Auction Agent Agreement.

“Broker-Dealer Fee Rate” shall have the meaning set forth in the Auction Agent Agreement.

“Business Day” shall mean any day on which the Trustee, at its address set forth in or for purposes of the Series 2001A Bond Resolution, is open for commercial banking business and on which the New York Stock Exchange and the Auction Agent are open for business.

“Carry-Over Amount” or “ARS Interest Carryover” shall mean, with respect to Auction Rate Securities for any Interest Period, the excess of the amount of interest that would have accrued thereon during such Interest Period had interest been calculated without regard to the Net Loan Rate interest rate limitation, over the amount of interest on such Auction Rate Securities calculated with respect to such Interest Period based on the Net Loan Rate, together with the unpaid portion of any such excess from prior Interest Periods; provided that any reference to “principal” or “interest” in this Appendix E-1 shall not include within the meanings of such words Carry-over Amount or any interest accrued on Carry-over Amount.

“Carryover Rate” shall mean the interest rate calculated on each Rate Determination Date, adjusted on each Rate Adjustment Date and, until paid, compounded on each Rate Adjustment Date, each such rate to be equal to the interest rate for the Auction Rate Securities as adjusted on such Rate Adjustment Date.

“Conversion” shall mean a change, after prior written notification to each Rating Agency, in interest rate (i) to a Fixed Rate; (ii) from an Auction Rate to a Variable Rate; or (iii) from a Variable Rate to an Auction Rate.

“Conversion Date” shall mean the date on which a change from an Auction Rate to a Fixed Rate or a Variable Rate becomes effective.

“Corporation Order” shall mean a written order signed in the name of the Corporation by an Authorized Officer.

“Distribution Date” shall mean (i) with respect to Auction Rate Securities, prior to the Conversion (if any) of the same, the applicable ARS Distribution Date and (ii) with respect to any Auction Rate Securities after a Conversion, the Distribution Date set forth in the resolution of the Corporation providing for such Conversion.

“Existing Holder” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Participants – *Existing Holders and Potential Holders*.”

“Existing Holder Registry” shall mean the registry of Persons who are Existing Holders, maintained by the Auction Agent as provided in the Auction Agent Agreement.

“Favorable Opinion” shall mean a Counsel’s Opinion to the effect that a proposed auction: (i) is authorized by the General Resolution, the Series 2001A Bond Resolution, and by all necessary action on the part of the Corporation; and (ii) will not, by itself, have an adverse effect on the Kentucky Tax Status of any affected Series 2001A Bond.

“Fixed Rate” shall mean the fixed rate of interest borne on any Senior Series 2001A Bonds on and after the Conversion Date with respect to such Series.

“Hold Order” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Submission of Orders*.”

“Holder” shall mean the Beneficial Owner of any Auction Rate Securities.

“Initial Auction Agent” shall mean Bankers Trust Company, a New York banking corporation, its successors and assigns.

“Initial Auction Agent Agreement” shall mean the Auction Agent Agreement, to be dated as of July 1, 2001, among the Corporation, the Trustee and the Initial Auction Agent, including any amendment thereof or supplement thereto.

“Initial Auction Rate Determination Date” shall mean the date on which the initial Auction Rate for the Auction Rate Securities is determined in connection with the Initial Period or any change of an Interest Period applicable to the Senior Series 2001A Bonds to an Auction Period, which date shall not be less than one (1) Business Day prior to the Conversion Date.

“Initial Period” shall mean (a) with respect to the Senior Series 2001A-1 Bonds the period commencing on the Issue Date of the Senior Series 2001A-1 Bonds through and including August 22, 2001; and (b) with respect to the Senior Series 2001A-2 Bonds the period commencing on the Issue Date of the Senior Series 2001A-2 Bonds through and including August 29, 2001.

“Initial Rate” shall mean the per annum interest rate specified to be in effect therefor during the Initial Period.

“Initial Rate Adjustment Date” shall mean (a) with respect to the Senior Series 2001A-1 Bonds, August 23, 2001; and (b) with respect to the Senior Series 2001A-2 Bonds, August 30, 2001.

“Initial Rate Determination Date” shall mean (a) with respect to the Senior Series 2001A-1 Bonds, August 22, 2001; and (b) with respect to the Senior Series 2001A-2 Bonds, August 29, 2001.

“Interest Amount,” with respect to the Auction Rate Securities, shall mean the amount of interest distributable in respect of each \$50,000 in principal amount (taken, without rounding, to .0001 of one cent) of Auction Rate Securities for any Interest Period or part thereof.

“Interest Payment Date” or “ARS Distribution Date” shall mean (a) with respect to the Senior Series 2001A-1 Bonds, August 23, 2001 and each Rate Adjustment Date thereafter; (b) with respect to the Senior Series

2001A-2 Bonds, August 30, 2001 and each Rate Adjustment Date thereafter; and (c) the stated maturity of the Auction Rate Securities.

“Interest Period” shall mean the Initial Period and each period commencing on a Rate Adjustment Date and ending on the day before the next Rate Adjustment Date, Distribution Date or stated maturity of the principal of the Auction Rate Securities, as applicable.

“Interest Rate” shall mean the rate of interest per annum borne by the Senior Series 2001A Bonds, which rate may be an Auction Rate or other Variable Rate, or a Fixed Rate.

“Interest Rate Limitation” shall mean the lesser of: (a) 15% per annum or such higher rate as may be permitted with a Rating Affirmation; or (b) the maximum rate of interest permitted by the laws of Kentucky.

“Mandatory Tender Date” shall mean a date on which Auction Rate Securities are required to be tendered for purchase.

“Market Agent” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Participants – *Market Agent*.”

“Market Agent Agreement” shall mean the Market Agent Agreement, dated as of July 1, 2001, among the Corporation, the Market Agent and the Trustee, as originally executed and as from time to time amended or supplemented in accordance with the terms thereof and the Series 2001A Bond Resolution.

“Maximum Auction Rate” shall mean (a) the Applicable LIBOR Rate plus 1.50% (if the rating assigned by Moody’s to the Auction Rate Securities is “Aa3” or better) or (b) the Applicable LIBOR Rate plus 2.50% (if the rating assigned by Moody’s to the Auction Rate Securities is less than “Aa3” but at least “A”) or (c) the Applicable LIBOR Rate, plus 3.50% (if the rating assigned by Moody’s to the Auction Rate Securities is less than “A”). For purposes of the Auction Agent and the Auction Procedures, the ratings referred to in this definition shall be the last ratings of which the Auction Agent has been given notice pursuant to the Auction Agent Agreement.

“Net Loan Rate” shall mean, for any Auction, a per annum interest rate on the Auction Rate Securities which, when taken together with the interest rate on the Auction Rate Securities, for each auction during the one-year period ending on the final day of the proposed Auction Period, would result in the average interest rate on the Auction Rate Securities for such period either (i) not being in excess (on a per annum basis) of the average of the Ninety-One Day United States Treasury Bill Rate plus 1.20% for such one-year period (if all of the ratings assigned by the Rating Agency to the Auction Rate Securities are “Aa3” or better), (ii) not being in excess (on a per annum basis) of the average on the Ninety-One Day United States Treasury Bill Rate plus 1.50% for such one-year period (if any one of the ratings assigned by the Rating Agency to the Auction Rate Securities is less than “Aa3” but at least any category of “A”), or (iii) not being in excess (on a per annum basis) of the average of the Ninety-One Day United States Treasury Bill Rate plus 1.75% for such one-year period (if any one of the ratings assigned by the Rating Agency to the Auction Rate Securities is less than the lowest category of “A”); provided, however, that if the Auction Rate Securities have not been Outstanding for at least such one-year period, then for any portion of such period during which such Auction Rate Securities were not Outstanding, the interest rates on the Auction Rate Securities for purposes of this definition shall be deemed to be equal to such rates as the Market Agent shall determine were the rates of interest on equivalent rated auction securities with comparable lengths of auction periods during such period; provided, however, that this definition may be modified at the direction of the Corporation upon receipt by the Trustee of (A) written consent of the Market Agent and (B) a Rating Affirmation with respect to the Auction Rate Securities.

“Ninety-One Day United States Treasury Bill Rate” shall mean the bond-equivalent yield on the 91-day United States Treasury Bills sold at the last auction thereof that immediately precedes the Rate Determination Date, as determined by the Market Agent on the Rate Determination Date.

“Non-Payment Rate” on any Rate Determination Date, shall mean (a) prior to an Auction Period Conversion, One-Month LIBOR plus 1.50% and (b) after an Auction Period Conversion, the interest rate per annum

set forth in the definition thereof in the resolution of the Corporation adopted in connection with the Auction Period Conversion.

“Notice of Fee Change” shall mean a notice of a change in the Auction Agent Fee Rate or the Broker-Dealer Fee Rate.

“Order” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Submission of Orders*.”

“Payment Default” shall mean (a) a default in the due and punctual payment of any installment of interest on the Auction Rate Securities or (b) a default in the due and punctual payment of any interest on and principal of the Auction Rate Securities at their stated maturity or pursuant to a mandatory redemption.

“Person” shall mean and include, unless otherwise specified, an individual, corporation, company, trust, estate, partnership or association.

“Potential Holder” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Participants – *Existing Holders and Potential Holders*.”

“Rate Adjustment Date” shall mean (a) with respect to the Senior Series 2001A-1 Bonds, the date on which a new Interest Rate becomes effective with respect to the Senior Series 2001A-1 Bonds, and shall mean the Initial Rate Adjustment Date and, thereafter, the first Business Day following each Rate Determination Date (which, until an Auction Period Adjustment or Auction Period Conversion, generally is each fourth Thursday, or the next Business Day if such Thursday is not a Business Day); and (b) with respect to the Senior Series 2001A-2 Bonds, the date on which a new Interest Rate becomes effective with respect to the Senior Series 2001A-2 Bonds, and shall mean the Initial Rate Adjustment Date and, thereafter, the first Business Day following each Rate Determination Date (which, until an Auction Period Adjustment or Auction Period Conversion, generally is each fourth Thursday, or the next Business Day if such Thursday is not a Business Day).

“Rate Determination Date” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *General*.”

“Record Date” shall mean the close of business on the Business Day preceding an ARS Distribution Date.

“Redemption Date,” when used with respect to any Auction Rate Securities to be redeemed, shall mean the date fixed for such redemption.

“Registered Owner” shall mean the Person in whose name a Senior Series 2001A Bond is registered on the books maintained by the Trustee or its agent.

“Registrar” shall mean the Trustee or any separate registrar appointed under the Senior Series 2001A Bond Resolution with respect to the Senior Series 2001A Bonds.

“Remarketing Agent” shall mean Salomon Smith Barney Inc., its successors and/or assigns or any successor to it as such agent.

“Reuters Screen LIBO Page” shall be the display designated as page “LIBO” on the Reuters Monitor Money Rates Service (or such other page as may replace the LIBO page for the purposes of displaying London interbank offered rates of major banks).

“SEC” shall mean the Securities and Exchange Commission.

“Securities Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Sell Order” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Submission of Orders*.”

“Submission Deadline” shall mean 12:30 P.M. on any Rate Determination Date or such other time on any Rate Determination Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

“Submitted Bid” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Sell Orders*.”

“Submitted Hold Order” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Sell Orders*.”

“Submitted Order” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Sell Orders*.”

“Submitted Sell Order” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Sell Orders*.”

“Substitute Auction Agent” shall mean a Person having the qualifications required below in “Auction Participants – *Auction Agent*,” with whom the Trustee and the Corporation enter into a Substitute Auction Agent Agreement.

“Substitute Auction Agent Agreement” shall mean an auction agent agreement containing terms substantially similar to the terms of the Initial Auction Agent Agreement, whereby a Substitute Auction Agent agrees with the Trustee and the Corporation to perform the duties of the Auction Agent under the Series 2001A Bond Resolution.

“Sufficient Clearing Bids” shall have the meaning set forth in this Appendix E-1 under the section titled “Auction Procedures – *Determination of Sufficient Clearing Bids and Bid Auction Rate*.”

“Telerate Page 3750” shall mean the display page so designated on the Dow Jones Telerate Service (or such other page as may replace that page on that service for the purpose of displaying comparable rates or prices).

“Variable Rate” shall mean any interest rate borne by any Subordinate Series 2001B Bonds which is not a Fixed Rate or an Auction Rate.

Auction Participants.

Existing Holders and Potential Holders. Participants in each Auction will include: (i) “Existing Holders,” which will mean, for purposes of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder Registry at the close of business on the Business Day preceding such Auction, and, for purposes of dealing with the Broker-Dealer in connection with an Auction, a Person who is a Beneficial Owner of Auction Rate Securities and (ii) “Potential Holders,” which will mean any Person (including an Existing Holder) that is a Broker-Dealer for purposes of dealing with the Auction Agent, and a potential Beneficial Owner for purposes of dealing with a Broker-Dealer, who may be interested in acquiring Auction Rate Securities.

By purchasing the Auction Rate Securities, whether in an Auction or otherwise, each prospective purchaser of the Auction Rate Securities or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms described in the Resolutions; (ii) so long as the beneficial ownership of the Auction Rate Securities is maintained in Book-Entry Form to sell, transfer or otherwise dispose of Auction Rate Securities, only pursuant to a Bid (as defined below) or a Sell Order (as defined below) in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of Auction Rate Securities so transferred, its Agent Member or Broker-Dealer advises the Auction Agent of such transfer; (iii) to have its beneficial ownership of Auction Rate Securities maintained at all times in Book-Entry Form for the account of its

Agent Member, which in turn will maintain records of such beneficial ownership, and to authorize such Agent Member to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request; (iv) that a Sell Order placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount of Auction Rate Securities specified in such Sell Order; (v) that a Bid placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount of Auction Rate Securities specified in such Bid if the rate specified in such Bid is greater than, or in some cases equal to, the Auction Rate determined in the Auction; (vi) that a Bid placed by a Potential Holder will constitute an irrevocable offer to purchase the principal amount, or a lesser principal amount, of the Auction Rate Securities specified in such Bid if the rate specified in such Bid is, respectively, less than or equal to the Auction Rate determined in the Auction; and (vii) to tender its Auction Rate Securities for purchase at 100% of the principal amount thereof, plus accrued but unpaid interest and unpaid Carry-over Amount, if any, and interest accrued thereon, on a Conversion Date or an Auction Period Conversion Date, as applicable.

The principal amount of the Auction Rate Securities purchased or sold may be subject to proration procedures on the Rate Determination Date. Each purchase or sale of the Auction Rate Securities on the Rate Determination Date will be made for settlement on the first day of the Interest Period immediately following such Rate Determination Date at a price equal to 100% of the principal amount thereof plus accrued interest, if any. The Auction Agent is entitled to conclusively rely upon the terms of any Order submitted to it by a Broker-Dealer.

Auction Agent. Bankers Trust Company, New York, New York ("Bankers Trust Company"), is appointed in the Resolutions as Initial Auction Agent to serve as agent for the Corporation in connection with Auctions. The Trustee is directed by the Corporation to enter into the Initial Auction Agent Agreement with Bankers Trust Company, as the Initial Auction Agent. Any Substitute Auction Agent will be (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, the City of New York, or such other location as approved by the Trustee and the Market Agent in writing and having a combined capital stock or surplus and undivided profits of at least \$50,000,000, or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$50,000,000, and, in either case, authorized by law to perform all the duties imposed upon it under the Resolutions and under the Auction Agent Agreement. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Resolutions by giving at least 90 days notice to the Trustee, the Corporation and the Market Agent. The Auction Agent may be removed at any time by the Trustee upon the written direction of the Corporation, or the Holders of at least 66-2/3% of the aggregate principal amount of the Auction Rate Securities then Outstanding, by an instrument signed by such Holders or their attorneys and filed with the Auction Agent, the Corporation, the Trustee and the Market Agent upon at least 90 days notice. If required by the Market Agent, a Substitute Auction Agent Agreement will be entered into with a Substitute Auction Agent. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement and be relieved of its obligations and duties as Auction Agent if, within 30 days after notifying the Trustee, the Corporation and the Market Agent in writing that it has not received payment of any Auction Agent Fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment.

If the Auction Agent should resign or be removed or be dissolved, or if the property or affairs of the Auction Agent will be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Trustee, at the direction of the Corporation (after receipt of a certificate from the Corporation's financial advisor confirming that any proposed Substitute Auction Agent meets the requirements described in the preceding paragraph above), shall use its best efforts to appoint a Substitute Auction Agent.

The Auction Agent is acting as agent for the Corporation in connection with Auctions. In the absence of negligence or bad faith on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or any error of judgment made by it in the performance of its duties under the Auction Agent Agreement and will not be liable for any error of judgment made in good faith unless the Auction Agent will have been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgment.

The Corporation will pay the Auction Agent the Auction Agent Fee annually and the Trustee will reimburse the Auction Agent upon its request for all reasonable expenses, disbursements and advances incurred or made by the Auction Agent in accordance with any provision of the Auction Agent Agreement or the Broker-Dealer Agreements (including the reasonable compensation and the expenses and disbursements of its agents and counsel). Such amounts are payable from the Revenue Account allocable thereto. The Corporation will indemnify and hold harmless the

Auction Agent for and against any loss, liability or expense incurred without gross negligence or bad faith on the Auction Agent's part, arising out of or in connection with the acceptance or administration of its agency under the Auction Agent Agreement and the Broker-Dealer Agreements including the reasonable costs and expenses (including the reasonable fees and expenses of its counsel) of defending itself against any such claim or liability in connection with its exercise or performance of any of its duties under the Resolutions, the Auction Agent Agreement and the Broker-Dealer Agreement and of enforcing this indemnification provision; provided that the Corporation will not indemnify the Auction Agent as described in this paragraph for any fees and expenses incurred by the Auction Agent in the normal course of performing its duties under the Auction Agent Agreement and under the Broker-Dealer Agreements, such fees and expenses being payable as described above.

Broker-Dealer. Existing Holders and Potential Holders may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer," including Salomon Smith Barney Inc. as the sole initial Broker-Dealer, or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (i) is an Agent Member or an affiliate of an Agent Member, (ii) has been selected by the Corporation and (iii) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

The Broker-Dealers are entitled to a Broker-Dealer Fee, which is payable by the Auction Agent from moneys received from the Trustee, on each ARS Distribution Date. Such Broker-Dealer Fee is payable from the Revenue Account allocable thereto as provided in the Resolutions and the Broker-Dealer Agreement. Broker-Dealers may submit Orders in Auctions for their own accounts. Any Broker-Dealer submitting an Order for its own account in any Auction might have an advantage over other Bidders in that it would have knowledge of other Orders placed through it in that Auction, but it would not have knowledge of Orders submitted by other Broker-Dealers. The Broker-Dealer Agreements provide that a Broker-Dealer shall handle its customers' Orders in accordance with their respective duties under applicable securities laws and rules. Any entity that is an affiliate of the Corporation and becomes a Broker-Dealer must submit a Sell Order covering any Auction Rate Securities held for its own account.

Market Agent. Under the Market Agent Agreement, and in connection with the Auction Rate Securities, the "Market Agent," initially Salomon Smith Barney Inc., will act solely as agent of the Corporation and will not assume any obligation or relationship of agency or trust for or with any of the Beneficial Owners of Auction Rate Securities. The Market Agent will receive nominal compensation for the performance of its duties under the Market Agent Agreement.

Auction Procedures.

General. Auctions to establish the Auction Rate will be held on each Rate Determination Date by application of the Auction Procedures described in the Resolutions. For a period beginning on the date of initial delivery and continuing through (a) August 22, 2001 with respect to the Senior Series 2001A-1 Bonds, and (b) August 29, 2001 with respect to the Senior Series 2001A-2 Bonds, the Senior Series 2001A-1 Bonds and the Senior Series 2001A-2 Bonds will bear interest at a rate to be determined on or about July 26, 2001. "Rate Determination Date" means (a) with respect to the Senior Series 2001A-1 Bonds, August 22, 2001 and (b) with respect to the Senior Series 2001A-2 Bonds, August 29, 2001, and thereafter, the Business Day immediately preceding the first day of each related Auction Period, other than: (i) an Auction Period which commences on a Conversion Date or an Auction Period Conversion Date; (ii) each Auction Period commencing after the ownership of Auction Rate Securities is no longer maintained in Book-Entry Form; (iii) each Auction Period commencing after and during the continuance of a Payment Default; or (iv) any Auction Period commencing less than two Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Rate Determination Date for one or more Auction Periods may be changed as described below under "Changes in Auction Terms."

Calculation of Maximum Auction Rate, All-Hold Rate and Non-Payment Rate. The Auction Agent will calculate the Maximum Auction Rate, the All-Hold Rate and the Applicable LIBOR Rate on each Rate Determination Date. Upon receipt of written notice from the Trustee of a failed Conversion or Auction Period Conversion as described in the Resolutions, the Auction Agent will calculate the Maximum Auction Rate as of such failed Conversion Date or Auction Period Conversion Date and give notice thereof as provided and to the parties specified in the Auction

Agent Agreement. If the ownership of the Auction Rate Securities is no longer maintained in Book-Entry Form, the Market Agent will calculate the Maximum Auction Rate and the Net Loan Rate on the Business Day immediately preceding each Rate Adjustment Date commencing after delivery of the certificates representing the Auction Rate Securities. If a Payment Default has occurred, the Trustee will calculate the Non-Payment Rate on the first day of (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than two Business Days after the cure of any Payment Default. The Auction Agent will determine the Applicable LIBOR Rate for each Auction Period other than the first Auction Period; provided that if the ownership of the Auction Rate Securities is no longer maintained in Book-Entry Form, or if a Payment Default has occurred, then the Trustee will determine the Applicable LIBOR Rate for each such Interest Period. The determination by the Trustee or the Auction Agent, as the case may be, of the Applicable LIBOR Rate will (in the absence of manifest error) be final and binding upon the Holders and all other parties. If calculated or determined by the Auction Agent, the Auction Agent will promptly advise the Trustee of the Applicable LIBOR Rate.

Submission of Orders. So long as the ownership of the Auction Rate Securities is maintained in Book-Entry Form, an Existing Holder may sell, transfer or otherwise dispose of Auction Rate Securities only pursuant to a Bid or Sell Order (as hereinafter defined) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent in writing of such transfer. Prior to a Conversion Date and except with respect to the Rate Determination Date immediately preceding an Auction Period Conversion Date, Auctions will be conducted on each Rate Determination Date, if there is an Auction Agent on such Rate Determination Date, in the following manner.

Prior to the Submission Deadline (defined as 12:30 P.M., eastern time, on any Rate Determination Date or such other time on any Rate Determination Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time) on each Rate Determination Date:

(a) each Existing Holder of Auction Rate Securities may submit to a Broker-Dealer by telephone or otherwise information as to: (i) the principal amount of Outstanding Auction Rate Securities, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period (a "Hold Order"); (ii) the principal amount of Outstanding Auction Rate Securities, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Interest Period will be less than the rate per annum specified by such Existing Holder (a "Bid"); and/or (iii) the principal amount of Outstanding Auction Rate Securities, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Interest Period (a "Sell Order"); and

(b) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of Auction Rate Securities which each such Potential Holder offers to purchase, if the Auction Rate for the next succeeding Interest Period will not be less than the rate per annum specified by such Potential Holder (also a "Bid").

Each Hold Order, Bid and Sell Order will be an "Order." Each Existing Holder and each Potential Holder placing an Order is referred to as a "Bidder."

Subject to the provisions described above under "Existing Holders and Potential Holders," a Bid by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate will be less than the rate specified in such Bid; (ii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities to be determined as described below in "Acceptance and Rejection of Orders," if the Auction Rate will be equal to the rate specified in such Bid; or (iii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities to be determined as described below under "Acceptance and Rejection of Orders," if the rate specified in such Bid will be higher than the Maximum Auction Rate and Sufficient Clearing Bids (as defined below) have not been made.

Subject to the provisions described below under "Validity of Orders," a Sell Order by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Auction Rate Securities specified in such Sell Order; or (ii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities as described below under "Acceptance and Rejection of Orders," if Sufficient Clearing Bids have not been made.

Subject to the provisions described below under “Validity of Orders,” a Bid by a Potential Holder will constitute an irrevocable offer to purchase: (i) the principal amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate will be higher than the rate specified in such Bid or (ii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities as described below in “Acceptance and Rejection of Orders,” if the Auction Rate is equal to the rate specified in such Bid.

Each Broker-Dealer will submit in writing to the Auction Agent prior to the Submission Deadline on each Rate Determination Date all Orders obtained by such Broker-Dealer and will specify with respect to each such Order: (i) the name of the Bidder placing such Order; (ii) the aggregate principal amount of Auction Rate Securities that are the subject of such Order; (iii) to the extent that such Bidder is an Existing Holder: (a) the principal amount of Auction Rate Securities, if any, subject to any Hold Order placed by such Existing Holder; (b) the principal amount of Auction Rate Securities, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and (c) the principal amount of Auction Rate Securities, if any, subject to any Sell Order placed by such Existing Holder; and (iv) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder’s Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate up to the next highest one-thousandth (.001) of one percent.

If an Order or Orders covering all Outstanding Auction Rate Securities held by any Existing Holder are not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding Auction Rate Securities held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

Neither the Corporation, the Trustee nor the Auction Agent will be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

An Existing Holder may submit multiple Orders, of different types and specifying different rates, in an Auction with respect to Auction Rate Securities then held by such Existing Holder. An Existing Holder that offers to purchase additional Auction Rate Securities is, for purposes of such offer, treated as a Potential Holder.

Any Bid specifying a rate higher than the Maximum Auction Rate will (i) be treated as a Sell Order if submitted by an Existing Holder and (ii) not be accepted if submitted by a Potential Holder.

Validity of Orders. If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding Auction Rate Securities held by such Existing Holder, such Orders will be considered valid as follows and in the order of priority described below.

Hold Orders. All Hold Orders will be considered valid, but only up to the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder, and if the aggregate principal amount of Auction Rate Securities subject to such Hold Orders exceeds the aggregate principal amount of Auction Rate Securities held by such Existing Holder, the aggregate principal amount of Auction Rate Securities subject to each such Hold Order will be reduced pro rata so that the aggregate principal amount of Auction Rate Securities subject to all such Hold Orders equals the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder.

Bids. Any Bid will be considered valid up to the amount of the excess of the principal amount of Outstanding Auction Rate Securities held by such Existing Holder over the aggregate principal amount of Auction Rate Securities subject to any Hold Orders referred to above. Subject to the preceding sentence, if multiple Bids with the same rate are submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding Auction Rate Securities subject to such Bids is greater than such excess, such Bids will be considered valid up to the amount of such excess. Subject to the two preceding sentences, if more than one Bid with different rates are submitted on behalf of such Existing Holder, such Bids will be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to the amount of such excess. In any event, the aggregate principal amount of Outstanding Auction Rate Securities, if any, subject to Bids not valid under the provisions described above will be treated as the subject of a Bid by a Potential Holder at the rate therein specified.

Sell Orders. All Sell Orders will be considered valid up to the amount of the excess of the principal amount of Outstanding Auction Rate Securities held by such Existing Holder over the aggregate principal amount of Auction Rate Securities subject to valid Hold Orders and valid Bids as referred to above.

If more than one Bid for Auction Rate Securities is submitted on behalf of any Potential Holder, each Bid submitted will be a separate Bid with the rate and principal amount therein specified. Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination will be rejected and will be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination will be rejected. Any Bid specifying a rate higher than the Maximum Auction Rate will be (i) treated as a Sell Order if submitted by an Existing Holder and (ii) will not be accepted if submitted by a Potential Holder. Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Rate Determination Date will be irrevocable; provided, however that the Auction Agent with consent of the Market Agent and Broker-Dealer may modify such restriction to allow revocation prior to the Submission Deadline.

A Hold Order, a Bid or a Sell Order that has been determined valid pursuant to the procedures described above is referred to as a “Submitted Hold Order,” a “Submitted Bid” and a “Submitted Sell Order,” respectively (collectively, “Submitted Orders”).

Determination of Sufficient Clearing Bids and Bid Auction Rate. Not earlier than the Submission Deadline on each Rate Determination Date, the Auction Agent will assemble all valid Submitted Orders and will determine:

(a) the excess of the total principal amount of Outstanding Auction Rate Securities over the sum of the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Hold Orders (such excess being hereinafter referred to as the “Available Auction Rate Securities”); and

(b) from such Submitted Orders whether the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Auction Rate exceeds or is equal to the sum of (i) the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Auction Rate and (ii) the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Sell Orders (in the event such excess or such equality exists other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders, such Submitted Bids by Potential Holders described above will be hereinafter referred to collectively as “Sufficient Clearing Bids”); and

(c) if Sufficient Clearing Bids exist, the “Bid Auction Rate” will be the lowest rate specified in such Submitted Bids such that if:

(i) each such Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bids); and

(ii) each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying lower rates, were accepted,

the result would be that such Existing Holders described in subparagraph (i) above would continue to hold an aggregate principal amount of Outstanding Auction Rate Securities which, when added to the aggregate principal amount of Outstanding Auction Rate Securities to be purchased by such Potential Holders described in subparagraph (ii) above, would equal not less than the Available Auction Rate Securities.

Notice of Auction Rate and Interest Rate. Promptly after the Auction Agent has made the determinations described above and has received from the Market Agent the latter’s determination of the Net Loan Rate, the Auction Agent will advise the Trustee and the Broker-Dealers of the Net Loan Rate, the Maximum Auction Rate, the All-Hold Rate and the components thereof on the Rate Determination Date, and based on such determinations, the Auction Rate for the next succeeding Interest Period as follows:

(a) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Interest Period will be equal to the Bid Auction Rate so determined;

(b) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period will be equal to the Maximum Auction Rate; or

(c) if all Outstanding Auction Rate Securities are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period will be equal to the All-Hold Rate.

Promptly after the Auction Agent has determined the Auction Rate, the Auction Agent will determine and advise the Trustee of the Interest Rate, which rate will be the lesser of (a) the Auction Rate and (b) the Net Loan Rate. In no event shall the Interest Rate exceed 15% per annum.

Acceptance and Rejection of Orders. Existing Holders will continue to hold the principal amount of Auction Rate Securities that are subject to Submitted Hold Orders. If the Net Loan Rate is equal to or greater than the Bid Auction Rate and if Sufficient Clearing Bids, as described above under “Determination of Sufficient Clearing Bids and Bid Auction Rate,” have been received by the Auction Agent, the Bid Auction Rate will be the Auction Rate, and Submitted Bids and Submitted Sell Orders will be accepted or rejected and the Auction Agent will take such other action as set forth below.

Any provision of this Exhibit E-1 to the contrary notwithstanding, the Auction Rate will not exceed the lesser of: (a) 15% per annum; or (b) the maximum rate of interest permitted by Commonwealth law (“Interest Rate Limitation”). Subject to the preceding sentence: (i) if the Net Loan Rate is greater than the Auction Rate, the Interest Rate shall be the Auction Rate; (ii) if the Net Loan Rate is less than the Auction Rate, the Interest Rate will be the Net Loan Rate; (iii) if the Auction Rate and the Net Loan Rate are both greater than the Interest Rate Limitation, the Interest Rate shall be equal to the Interest Rate Limitation; and (iv) if the Auction Agent has not received Sufficient Clearing Bids as described above under “Determination of Sufficient Clearing Bids and Bid Auction Rate” (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Holds Orders), the Interest Rate will be the lesser of the Maximum Auction Rate or the Net Loan Rate. In any of the cases described above in this paragraph, Submitted Orders will be accepted or rejected and the Auction Agent will take such other action as described below under “Insufficient Bids.”

Sufficient Clearing Bids. If Sufficient Clearing Bids have been made and the Net Loan Rate is equal to or greater than the Bid Auction Rate (in which case the Interest Rate will be the Bid Auction Rate), all Submitted Sell Orders will be accepted and, subject to the denomination requirements described below, Submitted Bids will be accepted or rejected as follows in the following order of priority:

(a) Existing Holders’ Submitted Bids specifying any rate that is higher than the Bid Auction Rate will be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(b) Existing Holders’ Submitted Bids specifying any rate that is lower than the Bid Auction Rate will be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(c) Potential Holders’ Submitted Bids specifying any rate that is lower than the Bid Auction Rate will be accepted;

(d) Each Existing Holder’s Submitted Bid specifying a rate that is equal to the Bid Auction Rate will be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bid, unless the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids will be greater than the principal amount of Outstanding Auction Rate Securities (the “remaining principal amount”) equal to the excess of the Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subparagraphs (b) and (c) above, in which event such

Submitted Bid of such Existing Holder will be rejected in part and such Existing Holder will be entitled to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the remaining principal amount by a fraction, the numerator of which will be the principal amount of Outstanding Auction Rate Securities held by such Existing Holder subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding Auction Rate Securities subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Bid Auction Rate;

(e) Each Potential Holder's Submitted Bid specifying a rate that is equal to the Bid Auction Rate will be accepted, but only in an amount equal to the principal amount of Auction Rate Securities obtained by multiplying the excess of the aggregate principal amount of Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subparagraphs (b), (c) and (d) above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Auction Rate Securities subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding Auction Rate Securities subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Bid Auction Rate; and

(f) Each Potential Holder's Submitted Bid specifying a rate that is higher than the Bid Auction Rate will be rejected.

Insufficient Bids. If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders) or if the Net Loan Rate is less than the Bid Auction Rate (in which case the Interest Rate shall be the Net Loan Rate) or if the Interest Rate Limitation applies, subject to the denomination requirements described below, Submitted Orders will be accepted or rejected as follows in the following order of priority:

(a) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate will be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(b) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate will be accepted, and specifying any rate that is higher than the Maximum Auction Rate will be rejected; and

(c) Each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Auction Rate and the Submitted Sell Order of each Existing Holder will be accepted thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Auction Rate Securities subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subparagraph (b) above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which will be the aggregate principal amount of Outstanding Auction Rate Securities subject to all such Submitted Bids and Submitted Sell Orders.

All Hold Orders. If all Outstanding Auction Rate Securities are subject to Submitted Hold Orders, all Submitted Bids will be rejected.

Authorized Denominations Requirement. If, as a result of the procedures described above regarding Sufficient Clearing Bids and Insufficient Bids, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of Auction Rate Securities that is not equal to an Authorized Denomination or any integral multiple thereof, the Auction Agent will, in such manner as in its sole discretion it will determine, round up or down the principal amount of Auction Rate Securities to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of Auction Rate Securities purchased or sold by each Existing Holder or Potential Holder will be equal to an Authorized Denomination. If, as a result of the procedures described above regarding Insufficient Bids, any Potential Holder would be entitled or required to purchase less than a principal amount of Auction Rate Securities that is not equal to an Authorized Denomination, the Auction

Agent will, in such manner as in its sole discretion it will determine, allocate Auction Rate Securities for purchase among Potential Holders so that only Auction Rate Securities in an Authorized Denomination are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Auction Rate Securities.

Based on the results of each Auction, the Auction Agent will determine the aggregate principal amount of Auction Rate Securities to be purchased and the aggregate principal amount of Auction Rate Securities to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Auction Rate Securities to be sold differs from such aggregate principal amount of Auction Rate Securities to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer will deliver, or from which Broker-Dealers acting for one or more sellers such Broker-Dealer will receive, as the case may be, Auction Rate Securities.

Neither the Corporation nor any affiliate of the Corporation may submit an Order in any Auction.

Any calculation by the Auction Agent, Market Agent, or Trustee, as applicable, of the Auction Rate, the Applicable LIBOR Rate, the Maximum Auction Rate, the All-Hold Rate, the Net Loan Rate and the Non-Payment Rate and the amounts of interest payable on any Auction Rate Securities for any Interest Payment Period will, in the absence of manifest error, be binding on all other parties, including without limitation, the Corporation and the Holders.

Settlement Procedures. The Auction Agent is required to advise each Broker-Dealer that submitted an Order in an Auction of the Auction Rate for the next Interest Period, whether there were Sufficient Clearing Bids in such Auction, and, if such Order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone not later than 3:00 P.M., eastern time, on the Rate Determination Date, if the Interest Rate is the Auction Rate, or 4:00 P.M., eastern time, on the Rate Determination Date, if the Interest Rate is the Net Loan Rate. Each Broker-Dealer that submitted an Order on behalf of a Bidder is required to then advise such Bidder of the Interest Rate for the next Interest Period and, if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, confirm purchases and sales with each Bidder purchasing or selling Auction Rate Securities as a result of the Auction and advise each Bidder purchasing or selling Auction Rate Securities as a result of the Auction to give instructions to its Agent Member to pay the purchase price against delivery of such Auction Rate Securities or to deliver such Auction Rate Securities against payment therefor, as appropriate. Pursuant to the Auction Agent Agreement, the Auction Agent will record each transfer of Auction Rate Securities on the Existing Holders Registry to be maintained by the Auction Agent.

In accordance with DTC's normal procedures, on the Business Day after the Rate Determination Date, the transactions described above will be executed through DTC, so long as DTC is the Securities Depository, and the accounts of the respective Agent Members at DTC will be debited and credited and Auction Rate Securities delivered as necessary to effect the purchases and sales of Auction Rate Securities as determined in the Auction. Purchasers are required to make payment through their Agent Members in same-day funds to DTC against delivery through their Agent Members. DTC will make payment in accordance with its normal procedures, which now provide for payment against delivery by its Agent Members in immediately available funds.

If any Existing Holder selling Auction Rate Securities in an Auction fails to deliver such Auction Rate Securities, the Broker-Dealer of any person that was to have purchased Auction Rate Securities in such Auction may deliver to such person a principal amount of Auction Rate Securities that is less than the principal amount of Auction Rate Securities that otherwise was to be purchased by such person but in any event equal to an Authorized Denomination. In such event, the principal amount of Auction Rate Securities to be delivered will be determined by such Broker-Dealer. Delivery of such lesser principal amount of Auction Rate Securities will constitute good delivery. Neither the Trustee nor the Auction Agent will have any responsibility or liability with respect to the failure of a Potential Holder, Existing Holder or their respective Broker-Dealer or Agent Member to deliver the principal amount of Auction Rate Securities or to pay for the Auction Rate Securities purchased or sold pursuant to an Auction or otherwise. For a further description of the settlement procedures, see Appendix F-1 – "SETTLEMENT PROCEDURES FOR THE SENIOR SERIES 2001A BONDS."

Trustee Not Responsible for Auction Agent, Market Agent and Broker-Dealers.

Neither the Corporation nor Trustee will be liable or responsible for the actions of or failure to act by the Auction Agent, Market Agent or any Broker-Dealer under the Resolutions or under the Auction Agent Agreement, the Market Agent Agreement or any Broker-Dealer Agreement. The Corporation and the Trustee may conclusively rely upon any information required to be furnished by the Auction Agent, the Market Agent or any Broker-Dealer without undertaking any independent review or investigation of the truth or accuracy of such information.

Changes in Auction Terms.

Changes in Auction Period or Periods. The Corporation may change, from time to time, the length of one or more Auction Periods in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the Interest Rate borne by the Auction Rate Securities (an “Auction Period Adjustment”); provided that the Corporation shall have received a Rating Affirmation from each Rating Agency and a Favorable Opinion. The Corporation will not initiate such change in the length of the Auction Period unless it has received the written consent of the Market Agent, which consent shall not be unreasonably withheld, not less than fifteen days nor more than 20 days prior to the effective date of an Auction Period Adjustment. The Corporation will initiate an Auction Period Adjustment by giving written notice to the Trustee, the Auction Agent, the Market Agent, the Securities Depository and each Rating Agency then rating the Auction Rate Securities subject to such Auction Period Adjustment, in substantially the form of, or containing substantially the information contained in the Resolutions at least 10 days prior to the Rate Determination Date for such Auction Period.

No Auction Period Adjustment may result in an Auction Period of less than 7 nor more than 91 days, with respect to Auction Rate Securities with a Short Auction Period, or in an Auction Period that is more than three months shorter or longer than the Auction Period established upon the issuance or Auction Period Conversion of such Auction Rate Securities, with respect to Auction Rate Securities with a Long Auction Period. An Auction Period Adjustment will not be allowed unless Sufficient Clearing Bids existed or all Auction Rate Securities were subject to Submitted Hold Orders at both the Auction preceding the date on which the notice of the proposed change was given as described above and the Auction preceding the proposed change.

An Auction Period Adjustment will take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 A.M., eastern time, on the Business Day before the Rate Determination Date for the first such Auction Period, a Certificate from the Corporation authorizing an Auction Period Adjustment specified in such certificate and the written consent of the Market Agent described above and the Rating Affirmation and the Favorable Opinion specified above, and (B) Sufficient Clearing Bids exist or all Auction Rate Securities were subject to Submitted Hold Orders at the Auction on the Rate Determination Date for such first Auction Period. If the condition referred to in (A) is not met, the Auction Rate applicable for the next Auction Period will be determined pursuant to the Auction Procedures and the length of the Auction Period will remain the same. If the condition referred to in (A) is met, but the condition referred to in (B) above is not met, the Interest Rate applicable for the next Auction Period will be the lesser of the Maximum Auction Rate and the Net Loan Rate, but in no event greater than the Interest Rate Limitation, and the length of the Auction Period will remain the same.

The Corporation, with the written consent of the Rating Agencies then rating the Outstanding Bonds, may, from time to time, change the length of one or more Auction Periods pursuant to an Auction Period Conversion; provided that the Corporation shall have received a Favorable Opinion. In the event of a failed Auction Period Conversion, the Interest Rate for the Auction Period for which the proposed Auction Period Conversion was to have been effective will be the lesser of the Maximum Auction Rate and the Net Loan Rate, but in no event greater than the Interest Rate Limitation, and the length of the Auction Period will remain the same.

Changes in the Rate Determination Date. The Market Agent may, while any of the Auction Rate Securities are Outstanding and with the written consent of an Authorized Officer of the Corporation, specify an earlier Rate Determination Date for any one or more Series of the Auction Rate Securities (but in no event more than five Business Days Earlier) than the Rate Determination Date for the Auction Rate Securities that would otherwise be determined in accordance with the definition of Rate Determination Date for such Series with respect to one or more specified Auction Periods in order to conform with then current market practice with respect to similar securities or to

accommodate economic and financial factors that may affect or be relevant to the day of the week constituting a Rate Determination Date and the Interest Rate borne on the Auction Rate Securities. The Authorized Officer of the Corporation will not consent to such change in the Rate Determination Date unless he or she shall have received from the Market Agent not less than 15 days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent will provide notice of its determination to specify an earlier Rate Determination Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Rate Determination Date to the Trustee, the Auction Agent, the Corporation and the Securities Depository. Such notice will be substantially in the form of, or contain substantially the information contained in, the Resolutions.

In connection with any change in Auction terms described above, the Auction Agent will provide such further notice to such parties as is specified in the Auction Agent Agreement.

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Appendix E-2

**Auction Procedures for the
Subordinate Series 2001B Bonds**

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AUCTION PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS

If not otherwise defined below, capitalized terms used below will have the meanings given such terms in the Resolutions (and described in Appendix B of this Official Statement). The procedures described in this Appendix E-2 apply only to the Subordinate Series 2001B Bonds which are referred to in this Appendix E-2 as Auction Rate Securities and apply to each Series of Auction Rate Securities separately.

Definitions

The following definitions apply to this Appendix E-2:

“AA’ Financial Commercial Paper Rate” shall mean, as of any Rate Determination Date, (i) (a) for Auction Periods greater than 35 days and less than 75 days, the interest equivalent of commercial paper placed on behalf of financial issuers whose corporate bonds are rated “AA” by S&P, or the equivalent of such rating by S&P, having a maturity of 30 days, (b) for Auction Periods greater than 35 days and less than 75 days, the interest equivalent of commercial paper placed on behalf of financial issuers whose corporate bonds are rated “AA” by S&P, or the equivalent of such rating by S&P, having a maturity of 60 days, (c) for Auction Periods greater than 75 days and less than 105 days, the interest equivalent of commercial paper placed on behalf of financial issuers whose corporate bonds are rated “AA” by S&P, or the equivalent of such rating by S&P, having a maturity of 90 days; as each such rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such Rate Determination Date; or (ii) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of the interest equivalent of the 30, 60, or 90-day rate, as applicable, on commercial paper placed on behalf of such issuers, as quoted to the Auction Agent on a discount basis or otherwise, by the Commercial Paper Dealers, as of the close of business on the Business Day immediately preceding such Rate Determination Date. If at the time quotations are required any Commercial Paper Dealer does not quote a commercial paper rate required to determine the “AA” Financial Commercial Paper Rate, or if less than three Commercial Paper Dealers are then serving as such for any reason, the “AA” Financial Commercial Paper Rate shall be determined on the basis of such quotations or quotations furnished by the Commercial Paper Dealer or Commercial Paper Dealers then serving as such and providing a quotation. For purposes of this definition, the “interest equivalent” of a rate stated on a discount basis (a “discount rate”) for commercial paper of a given day’s maturity shall be equal to the product of (a) 100 times (b) the quotient (rounded upward to the next higher one thousandth (.001) of 1%) of (x) the discount rate (expressed in decimals) divided by (y) the difference between (A) 1.00 and (B) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days from (and including) the Rate Determination Date to (but excluding) the date on which such commercial paper matures and the denominator of which shall be 360.

“After-Tax Equivalent,” on any Rate Determination Date, shall mean the interest rate per annum equal to the product of (i) the “AA” Financial Commercial Paper Rate on such date and (ii) 1.00 minus the Statutory Corporate Tax Rate on such date.

“Agent Member” shall mean a member of, or participant in, the Securities Depository

“All-Hold Rate,” on any Rate Determination Date, shall be the interest rate per annum equal to 90% of the lesser of: (a) the After-Tax Equivalent on such date and (b) the Index on such date; provided, that in no event shall the All-Hold Rate be more than the Maximum Rate.

“Applicable Number of Business Days” shall mean the greater of two (2) Business Days or one (1) Business Day plus the number of Business Days by which the Rate Determination Date for an Auction Period precedes the next Interest Payment Date.

“Applicable Percentage,” on any Rate Determination Date, shall mean the percentage determined (as such percentage may be adjusted pursuant to the Series 2001B Bond Resolution) based on the lower of the prevailing rating of the Auction Rate Securities in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

<u>Moody’s Credit Rating</u>	<u>Applicable Percentage</u>
“Aaa”	175%
“Aa”	175
“A”	175
“Baa”	200
Below “Baa”	265

provided, that if the Auction Rate Securities are not then rated by Moody’s, the Applicable Percentage shall be 265%. For purposes of this definition, Moody’s rating categories of “Aaa,” “Aa,” “A” and “Baa” refer to and include the respective rating categories correlative thereto if Moody’s has changed or modified its generic rating categories or if Moody’s does not rate or no longer rates the Auction Rate Securities or has been replaced. All ratings referred to in the Series 2001B Bond Resolution shall be without regard to the gradations within each rating category.

“Auction” shall mean the implementation of the Auction Procedures on a Rate Determination Date.

“Auction Agent” shall mean the Initial Auction Agent unless and until a Substitute Auction Agent Agreement becomes effective, after which the Auction Agent shall mean the Substitute Auction Agent.

“Auction Agent Agreement” shall mean the Initial Auction Agent Agreement unless and until a Substitute Auction Agent Agreement is entered into, after which Auction Agent Agreement shall mean such Substitute Auction Agent Agreement.

“Auction Agent Fee” shall have the meaning set forth in the Auction Agent Agreement.

“Auction Agent Fee Rate” shall have the meaning set forth in the Auction Agent Agreement.

“Auction Date” shall mean the date on which an Auction is held.

“Auction Period” shall mean the Interest Period applicable to any Auction Rate Securities with respect to which, after the Initial Period, the Interest Rate is determined, which Period shall generally consist of thirty-five (35) days commencing on a Rate Adjustment Date and ending on, and including, the day immediately preceding the next succeeding Rate Adjustment Date.

“Auction Period Adjustment” shall have the meaning set forth in this Appendix E-2 under the section titled “Changes in Auction Terms – *Changes in Auction Period or Periods.*”

“Auction Period Conversion” shall mean the change in the length of an Auction Period (i) from an Auction Period between seven (7) and ninety-one (91) days, inclusive, to an Auction Period between ninety-two (92) days and the stated maturity of the Auction Rate Securities, inclusive, (ii) from an Auction Period between ninety-two (92) days and the stated maturity of the Auction Rate Securities, inclusive, to an Auction Period between seven (7) and ninety-one (91) days, inclusive, or (iii) from an Auction Period between ninety-two (92) days and the stated maturity of the Auction Rate Securities, inclusive, to an Auction Period between ninety-two (92) days and the stated maturity of the Auction Rate Securities, inclusive, if such latter Auction Period is at least three (3) months shorter or at least three (3) months longer than the Auction Period for the Auction Rate Securities established either upon initial issuance of the Auction Rate Securities or pursuant to an Auction Period Conversion, whichever has occurred most recently.

“Auction Period Conversion Date” shall mean the date on which an Auction Period Conversion is effective which shall be an Interest Payment Date.

“Auction Procedures” shall mean the procedures set forth in “Auction Procedures.”

“Auction Rate” shall mean the interest rate that results from implementation of the Auction Procedures as described below in “Auction Procedures.”

“Auction Rate Securities” shall mean any Subordinate Series 2001B Bonds bearing interest at an Auction Rate.

“Authenticating Agent” shall mean the Trustee or any other entity acting as authenticating agent for the Trustee hereunder and as depository under an Authenticating Agent Agreement, or any successor or successors thereto pursuant to the Series 2001B Bond Resolution or pursuant to an Authenticating Agent Agreement, as the case may be, with respect to such functions collectively or separately.

“Authenticating Agent Agreement” shall mean any authenticating agent agreement among the Corporation, the Trustee and the Authenticating Agent, as depository, as amended and supplemented.

“Authorized Denomination” shall mean: (i) \$50,000 or any integral multiple thereof, while the Subordinate Series 2001B Bonds are bearing interest at an Auction Rate; (ii) \$100,000 or any integral multiple thereof, while the Subordinate Series 2001B Bonds are bearing interest at a Variable Rate, unless the Corporation shall specify other Authorized Denominations by a Certificate of an Authorized Officer delivered upon the applicable Conversion Date; and (iii) \$5,000 or any integral multiple thereof, while the Subordinate Series 2001B Bonds are bearing interest at a Fixed Rate, unless the Corporation shall specify other Authorized Denominations by a Certificate of an Authorized Officer delivered upon the applicable Conversion Date.

“Available Auction Rate Securities” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Sell Orders*.”

“Bid” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Submission of Orders*.”

“Bidder” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Submission of Orders*.”

“BMA” shall mean the Bond Market Association, its successors and assigns.

“BMA Index” shall mean on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the BMA or any Person acting in cooperation with or under the sponsorship of BMA and acceptable to the Market Agent, and effective from such date.

“Book-Entry Form” or “Book-Entry System” shall mean a form or system under which (i) the beneficial right to principal and interest may be transferred only through a book entry, (ii) physical securities in registered form are issued only to a Securities Depository or its nominee as Registered Owner, with the securities “immobilized” to the custody of the Securities Depository, and (iii) the book entry is the record that identifies the owners of beneficial interests in that principal and interest.

“Broker-Dealer” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Participants – *Broker-Dealer*.”

“Broker-Dealer Agreement” shall mean each agreement between the Auction Agent and a Broker-Dealer, approved by the Corporation, pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented. Each Broker-Dealer Agreement shall be substantially in the form of the Broker-Dealer Agreement, to be dated as of July 1, 2001, between Bankers Trust Company, as Auction Agent, and Salomon Smith Barney Inc., as Broker-Dealer.

“Broker-Dealer Fee” shall have the meaning set forth in the Auction Agent Agreement.

“Broker-Dealer Fee Rate” shall have the meaning set forth in the Auction Agent Agreement.

“Business Day” shall mean any day on which the Trustee, at its address set forth in or for purposes of the Series 2001B Bond Resolution, is open for commercial banking business and on which the New York Stock Exchange and the Auction Agent are open for business.

“Change of Tax Law” shall mean, with respect to any Beneficial Owner of the Auction Rate Securities, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the effective date of the initial Auction Period which (a) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (b) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any Registered Owner of the Auction Rate Securities the interest of which is excluded from gross income for federal income tax purposes under Section 103 of the Code.

“Commercial Paper Dealer” shall mean Salomon Smith Barney Inc., its successors and assigns, and any other commercial paper dealer appointed pursuant to the Series 2001B Resolution.

“Conversion” shall mean a change, after prior written notification to each Rating Agency, in interest rate: (i) to a Fixed Rate; (ii) from an Auction Rate to a Variable Rate; or (iii) from a Variable Rate to an Auction Rate.

“Conversion Date” shall mean the date on which a Conversion becomes effective.

“Existing Holder” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Participants – *Existing Holders and Potential Holders*.”

“Existing Holder Registry” shall mean the registry of Persons who are Existing Holders, maintained by the Auction Agent as provided in the Auction Agent Agreement.

“Favorable Opinion” shall mean a Counsel’s Opinion to the effect that a proposed action: (i) is authorized by the General Resolution, the Series 2001B Bond Resolution, and by all necessary action on the part of the Corporation; and (ii) will not, by itself, have an adverse effect on the Tax-Exempt Status of the Subordinate Series 2001B Bonds.

“Fixed Rate” shall mean the fixed rate of interest borne on any Subordinate Series 2001B Bonds on and after the Conversion Date with respect to such Series.

“Hold Order” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Submission of Orders*.”

“Holder” shall mean the Beneficial Owner of any Auction Rate Securities.

“Index” on any Rate Determination Date, shall mean (a) with respect to any Subordinate Series 2001B Bonds with an Auction Period of 60 days or less, the BMA Index, or if such rate is not published by BMA, the Index so determined by the Market Agent which shall equal the prevailing rate for bonds rated in the highest short-term rating category by the Rating Agencies in respect of issuers most closely resembling the “high grade” component issuers selected by BMA that are subject to tender by the holders thereof for purchase on not more than seven days’ notice and the interest on which is (i) variable on a weekly basis, (ii) excludable from gross income for federal income tax purposes under the Code, and (iii) not subject to an “alternative minimum tax” or similar tax under the Code, unless all tax-exempt bonds are subject to such tax, and (b) with respect to any Subordinate Series 2001B Bonds with an Auction Period of more than 60 days, the Index so determined by the Market Agent which shall equal the average yield on no less than three publicly offered securities selected by the Market Agent which are offered at par, have substantially the same underlying security, bear interest determined for approximately the same period as

the relevant Interest Period on such Series of Bonds, bear interest not subject to the alternative minimum tax, and are rated no lower than Aa by Moody's. If the Index cannot be determined as provided above, a comparable substitute index selected by the Market Agent with the approval of an Authorized Officer of the Corporation may be used.

"Initial Auction Agent" shall mean Bankers Trust Company, a New York banking corporation, its successors and assigns.

"Initial Auction Agent Agreement" shall mean the Auction Agent Agreement, to be dated as of July 1, 2001, among the Corporation, the Trustee and the Initial Auction Agent, including any amendment thereof or supplement thereto.

"Initial Market Agent" shall mean Salomon Smith Barney Inc., its successors and assigns.

"Initial Period" shall mean the period commencing on the Issue Date of the Subordinate Series 2001B Bonds through and including September 5, 2001.

"Initial Rate" shall mean the per annum interest rate in this Appendix E-2 specified to be in effect therefor during the Initial Period.

"Initial Rate Adjustment Date" shall mean September 6, 2001.

"Initial Rate Determination Date" shall mean the date on which the initial Auction Rate for the Auction Rate Securities is determined in connection with the Initial Period or any change of an Interest Period applicable to any Subordinate Series 2001B Bonds to an Auction Period, which date shall be the date set forth in the notice of the Corporation and shall be not less than one (1) Business Day prior to the Conversion Date.

"Interest Amount," with respect to the Auction Rate Securities, shall mean the amount of interest distributable in respect of each \$50,000 in principal amount (taken, without rounding, to .0001 of one cent) of Auction Rate Securities for any Interest Period or part thereof.

"Interest Payment Date" shall mean each May 1 and November 1, commencing November 1, 2001, which dates may be changed pursuant to the procedures described in "Changes in Auction Terms – *Changes in the Interest Payment Dates*."

"Interest Period" shall mean the Initial Period and each period commencing on a Rate Adjustment Date and ending on the day before the next Rate Adjustment Date, Distribution Date or stated maturity of the principal of the Auction Rate Securities, as applicable.

"Interest Rate" shall mean the rate of interest per annum borne by the Series 2001B Bonds, which rate may be an Auction Rate or other Variable Rate, or a Fixed Rate.

"Mandatory Tender Date" shall mean any Auction Period Conversion Date or any Conversion Date.

"Market Agent" shall mean the Initial Market Agent unless and until a Substitute Market Agent Agreement is entered into, after which Market Agent shall mean the Substitute Market Agent.

"Market Agent Agreement" shall mean the Market Agent Agreement, to be dated as of July 1, 2001, between the Trustee and the Initial Market Agent, as approved by the Corporation, until and unless a Substitute Market Agent Agreement is effective, after which Market Agent Agreement shall mean such Substitute Market Agent Agreement, in each case as from time to time amended or supplemented.

"Maximum Rate," on any Rate Determination Date, shall mean with respect to the Auction Rate Securities, the interest rate per annum equal to the lesser of (a) the product of the Applicable Percentage multiplied by the higher of (i) the After-Tax Equivalent on such date and (ii) the Index on such date, and (b) fourteen percent (14%);

provided, that in no event shall the Maximum Rate be more than the maximum rate of interest permitted by the laws of the Commonwealth.

“Non-Payment Rate” on any Rate Determination Date, shall mean the interest rate per annum equal to the lesser of (a) 265% of the Index on such date (as such percentage may be adjusted) and (b) fourteen percent (14%).

“Notice of Fee Change” shall mean a notice of a change in the Auction Agent Fee Rate or the Broker-Dealer Fee Rate.

“Order” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Submission of Orders.*”

“Payment Default” shall mean (a) a default in the due and punctual payment of any installment of interest on the Auction Rate Securities or (b) a default in the due and punctual payment of any interest on and principal of the Auction Rate Securities at their stated maturity or pursuant to a mandatory redemption.

“Person” shall mean and include, unless otherwise specified, an individual, corporation, company, trust, estate, partnership or association.

“Potential Holder” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Participants – *Existing Holders and Potential Holders.*”

“Rate Adjustment Date” shall mean the date on which a new Interest Rate becomes effective with respect to the Subordinate Series 2001B Bonds, and shall mean the Initial Rate Adjustment Date and, thereafter, the first Business Day following each Rate Determination Date (which, until an Auction Period Adjustment or Auction Period Conversion, generally is each fifth Thursday, or the next Business Day if such Thursday is not a Business Day).

“Rate Determination Date” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *General.*”

“Record Date” shall mean the close of business on the Business Day preceding an Interest Payment Date.

“Redemption Date,” when used with respect to any Auction Rate Securities to be redeemed, shall mean the date fixed for such redemption.

“Registered Owner” shall mean the Person in whose name a Subordinate Series 2001B Bond is registered on the books maintained by the Trustee or its agent.

“Registrar” shall mean the Trustee or any separate registrar appointed under the Subordinate Series 2001B Bond Resolution with respect to the Subordinate Series 2001B Bonds.

“Remarketing Agent” shall mean Salomon Smith Barney Inc., its successors and/or assigns or any successor to it as such agent.

“SEC” shall mean the Securities and Exchange Commission.

“Securities Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Sell Order” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Submission of Orders.*”

“Statutory Corporate Tax Rate” shall mean, as of any Rate Determination Date, the highest tax bracket (expressed in decimals) now or hereafter applicable in each taxable year on the income tax of every corporation as set forth in Section 11 of the Code or any successor section, without regard to any minimum additional tax provision

or provisions regarding changes in rates during a taxable year; the Statutory Corporate Tax Rate as of January 1, 2001, is 35%.

“Submission Deadline” shall mean 12:30 P.M. on any Rate Determination Date, or such other time on any Rate Determination Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

“Submitted Bid” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Sell Orders*.”

“Submitted Hold Order” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Sell Orders*.”

“Submitted Order” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Sell Orders*.”

“Submitted Sell Order” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Sell Orders*.”

“Substitute Auction Agent” shall mean a Person having the qualifications required below in “Auction Participants – *Auction Agent*,” with whom the Trustee and the Corporation enter into a Substitute Auction Agent Agreement.

“Substitute Auction Agent Agreement” shall mean an auction agent agreement containing terms substantially similar to the terms of the Initial Auction Agent Agreement, whereby a Substitute Auction Agent agrees with the Trustee and the Corporation to perform the duties of the Auction Agent under the Series 2001B Bond Resolution.

“Substitute Market Agent” shall mean the Person with whom the Trustee and the Corporation enter into a Substitute Market Agent Agreement.

“Substitute Market Agent Agreement” shall mean a market agent agreement containing terms substantially similar to the terms of the Initial Market Agent Agreement, whereby a Person having the qualifications required below in “Auction Participants – *Market Agent*” agrees with the Trustee to perform the duties of the Market Agent under the Series 2001B Bond Resolution.

“Sufficient Clearing Bids” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Determination of Sufficient Clearing Bids and Bid Auction Rate*.”

“Variable Rate” shall mean any interest rate borne by any Subordinate Series 2001B Bonds which is not a Fixed Rate or an Auction Rate.

“Winning Bid Rate” shall have the meaning set forth in this Appendix E-2 under the section titled “Auction Procedures – *Determination of Sufficient Clearing Bids and Winning Bid Rate*.”

Auction Participants

Existing Holders and Potential Holders. Participants in each Auction will include: (i) “Existing Holders,” which will mean, for purposes of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder Registry at the close of business on the Business Day preceding such Auction, and, for purposes of dealing with the Broker-Dealer in connection with an Auction, a Person who is a Beneficial Owner of Auction Rate Securities and (ii) “Potential Holders,” which will mean any Person (including an Existing Holder) that is a Broker-Dealer for purposes of dealing with the Auction Agent, and a potential Beneficial Owner for purposes of dealing with a Broker-Dealer, who may be interested in acquiring Auction Rate Securities.

By purchasing the Auction Rate Securities, whether in an Auction or otherwise, each prospective purchaser of the Auction Rate Securities or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms described in the Resolutions; (ii) so long as the beneficial ownership of the Auction Rate Securities is maintained in Book-Entry Form to sell, transfer or otherwise dispose of Auction Rate Securities, only pursuant to a Bid (as defined below) or a Sell Order (as defined below) in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of Auction Rate Securities so transferred, its Agent Member or Broker-Dealer advises the Auction Agent of such transfer; (iii) to have its beneficial ownership of Auction Rate Securities maintained at all times in Book-Entry Form for the account of its Agent Member, which in turn will maintain records of such beneficial ownership, and to authorize such Agent Member to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request; (iv) that a Sell Order placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount of Auction Rate Securities specified in such Sell Order; (v) that a Bid placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount of Auction Rate Securities specified in such Bid if the rate specified in such Bid is greater than, or in some cases equal to, the Auction Rate determined in the Auction; (vi) that a Bid placed by a Potential Holder will constitute an irrevocable offer to purchase the principal amount, or a lesser principal amount, of the Auction Rate Securities specified in such Bid if the rate specified in such Bid is, respectively, less than or equal to the Auction Rate determined in the Auction; and (vii) to tender its Auction Rate Securities for purchase at 100% of the principal amount thereof, plus accrued but unpaid interest, on a Conversion Date or an Auction Period Conversion Date, as applicable.

The principal amount of the Auction Rate Securities purchased or sold may be subject to proration procedures on the Rate Determination Date. Each purchase or sale of the Auction Rate Securities on the Rate Determination Date will be made for settlement on the first day of the Interest Period immediately following such Rate Determination Date at a price equal to 100% of the principal amount thereof plus accrued interest, if any. The Auction Agent is entitled to conclusively rely upon the terms of any Order submitted to it by a Broker-Dealer.

Auction Agent. Bankers Trust Company, New York, New York (“Bankers Trust Company”), is appointed in the Resolutions as Initial Auction Agent to serve as agent for the Corporation in connection with Auctions. The Trustee is directed by the Corporation to enter into the Initial Auction Agent Agreement with Bankers Trust Company as the Initial Auction Agent. Any Substitute Auction Agent will be (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, the City of New York, or such other location as approved by the Trustee and the Market Agent in writing and having a combined capital stock or surplus and undivided profits of at least \$50,000,000, or (ii) a member of the National Association of Securities Dealers, Inc. having a capitalization of at least \$50,000,000, and, in either case, authorized by law to perform all the duties imposed upon it under the Resolutions and under the Auction Agent Agreement. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Resolutions by giving at least 90 days notice to the Trustee, the Corporation and the Market Agent. The Auction Agent may be removed at any time by the Trustee upon the written direction of the Corporation, or the Holders of at least 66-2/3% of the aggregate principal amount of the Auction Rate Securities then Outstanding, by an instrument signed by such Holders or their attorneys and filed with the Auction Agent, the Corporation, the Trustee and the Market Agent upon at least 90 days notice. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Corporation acting in lieu of the Trustee. If required by the Market Agent, a Substitute Auction Agent Agreement will be entered into with a Substitute Auction Agent. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement and be relieved of its obligations and duties as Auction Agent if, within 30 days after notifying the Trustee, the Corporation and the Market Agent in writing that it has not received payment of any Auction Agent Fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment.

If the Auction Agent should resign or be removed or be dissolved, or if the property or affairs of the Auction Agent will be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Trustee, at the direction of the Corporation (after receipt of a certificate from the Corporation’s financial advisor confirming that any proposed Substitute Auction Agent meets the requirements described in the preceding paragraph above), shall use its best efforts to appoint a Substitute Auction Agent.

The Auction Agent is acting as agent for the Corporation in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or any error

of judgment made by it in the performance of its duties under the Auction Agent Agreement and will not be liable for any error of judgment made in good faith unless the Auction Agent will have been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgment.

The Corporation will pay the Auction Agent the Auction Agent Fee annually and the Trustee will reimburse the Auction Agent upon its request for all reasonable expenses, disbursements and advances incurred or made by the Auction Agent in accordance with any provision of the Auction Agent Agreement or the Broker-Dealer Agreements (including the reasonable compensation and the expenses and disbursements of its agents and counsel). Such amounts are payable from the Revenue Account allocable thereto. The Corporation will indemnify and hold harmless the Auction Agent for and against any loss, liability or expense incurred without gross negligence or bad faith on the Auction Agent's part, arising out of or in connection with the acceptance or administration of its agency under the Auction Agent Agreement and the Broker-Dealer Agreements including the reasonable costs and expenses (including the reasonable fees and expenses of its counsel) of defending itself against any such claim or liability in connection with its exercise or performance of any of its duties under the Resolutions, the Auction Agent Agreement and the Broker-Dealer Agreement and of enforcing this indemnification provision; provided that the Corporation will not indemnify the Auction Agent as described in this paragraph for any fees and expenses incurred by the Auction Agent in the normal course of performing its duties under the Auction Agent Agreement and under the Broker-Dealer Agreements, such fees and expenses being payable as described above.

Broker-Dealer. Existing Holders and Potential Holders may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer," including Salomon Smith Barney Inc. as the sole initial Broker-Dealer, or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (i) is an Agent Member or an affiliate of an Agent Member, (ii) has been selected by the Corporation and (iii) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

The Broker-Dealers are entitled to a Broker-Dealer Fee, which is payable by the Auction Agent from moneys received from the Trustee. Such Broker-Dealer Fee is payable from the Revenue Account allocable thereto as provided in the Resolutions and the Broker-Dealer Agreement. Broker-Dealers may submit Orders in Auctions for their own accounts. Any Broker-Dealer submitting an Order for its own account in any Auction might have an advantage over other Bidders in that it would have knowledge of other Orders placed through it in that Auction, but it would not have knowledge of Orders submitted by other Broker-Dealers. The Broker-Dealer Agreements provide that a Broker-Dealer shall handle its customers' Orders in accordance with their respective duties under applicable securities laws and rules. Any entity that is an affiliate of the Corporation and becomes a Broker-Dealer must submit a Sell Order covering any Auction Rate Securities held for its own account.

Market Agent. Under the Market Agent Agreement, and in connection with the Auction Rate Securities, the "Market Agent," initially Salomon Smith Barney Inc., will act solely as agent of the Corporation and will not assume any obligation or relationship of agency or trust for or with any of the Beneficial Owners of Auction Rate Securities. The Market Agent will receive nominal compensation for the performance of its duties under the Market Agent Agreement.

Auction Procedures

General. Auctions to establish the Auction Rate will be held on each Rate Determination Date by application of the Auction Procedures described in the Resolutions. For a period beginning on the date of initial delivery and continuing through September 5, 2001, the Subordinate Series 2001B Bonds will bear interest at a rate to be determined on or about July 26, 2001. Thereafter, the "Rate Determination Date" for each Series of the Auction Rate Securities will be the Business Day immediately preceding the first day of each related Auction Period, other than: (i) an Auction Period which commences on an Auction Period Conversion Date or a Conversion Date; (ii) each Auction Period commencing after the ownership of the Auction Rate Securities is no longer maintained in Book-Entry Form; (iii) each Auction Period commencing after the occurrence and during the continuance of a Payment Default; or (iv) any Auction Period commencing less than two Business Days after the

cure or waiver of a Payment Default. Notwithstanding the foregoing, the Rate Determination Date for one or more Auction Periods may be changed as described below under “Changes in Auction Terms.”

Calculation of Maximum Rate, All-Hold Rate and Non-Payment Rate. The Auction Agent will calculate the Maximum Rate and the All-Hold Rate on each Rate Determination Date. Upon receipt of written notice from the Trustee of a failed Conversion or Auction Period Conversion as described in the Resolutions, the Auction Agent will calculate the Maximum Rate as of such failed Conversion Date or Auction Period Conversion Date and give notice thereof as provided and to the parties specified in the Auction Agent Agreement. If the ownership of the Auction Rate Securities is no longer maintained in Book-Entry Form, the Market Agent will calculate the Maximum Rate on the Business Day immediately preceding each Rate Adjustment Date after delivery of certificates representing the Auction Rate Securities. If a Payment Default has occurred, the Market Agent will calculate the Non-Payment Rate on the first day of (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than two Business Days after the cure of any Payment Default. The Auction Agent will determine the “AA” Financial Commercial Paper Rate for each Auction Period other than the first Auction Period; provided that if the ownership of the Auction Rate Securities is no longer maintained in Book-Entry Form, or if a Payment Default has occurred, then the Market Agent will determine the “AA” Financial Commercial Paper Rate for each such Interest Period. The determination by the Market Agent or the Auction Agent, as the case may be, of the “AA” Financial Commercial Paper Rate will (in the absence of manifest error) be final and binding upon the Holders and all other parties. If calculated or determined by the Auction Agent, the Auction Agent will promptly advise the Trustee and the Corporation of the “AA” Financial Commercial Paper Rate.

If the Federal Reserve Bank of New York does not make available its 30-day commercial paper rate for purposes of determining the “AA” Financial Commercial Paper Rate, the Auction Agent will notify the Trustee of such fact and the Trustee will thereupon request that an Authorized Officer of the Corporation promptly appoint at least two Commercial Paper Dealers (in addition to Salomon Smith Barney Inc. who has been appointed as such) to provide commercial paper quotes for purposes of determining the “AA” Financial Commercial Paper Rate. Pending appointment of both such additional Commercial Paper Dealers, Salomon Smith Barney Inc. and any other Commercial Paper Dealer appointed and serving as such will provide the required quotations and such quotations will be used for purposes of the Resolutions.

Adjustment in Percentages Used to Determine Maximum, All-Hold and Non-Payment Rates. The Market Agent will, subject to receipt of a Rating Affirmation from the Rating Agency and the prior written consent of the Corporation and a Favorable Opinion, adjust the percentage used in determining the All-Hold Rate, the Applicable Percentages used in determining the Maximum Rate and the percentage of the Index used in calculating the Non-Payment Rate, if any such adjustment is necessary, in the judgment of the Market Agent to reflect any Change of Tax Law such that Auction Rate Securities bearing interest at the Maximum Rate, the All-Hold Rate or the Non-Payment Rate, in each case, will have substantially equal market values before and after such Change of Tax Law. In making any such adjustment, the Market Agent will take the following factors, as in existence both before and after such Change of Tax Law, into account: (1) short-term taxable and tax-exempt market rates and indices of such short-term rate; (2) the market supply and demand for short-term tax-exempt securities; (3) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the Auction Rate Securities; (4) general economic conditions; and (5) economic and financial factors present in the securities industry that may affect or that may be relevant to the Auction Rate Securities.

The Market Agent will communicate its determination to adjust the percentage used in determining the All-Hold Rate, the Applicable Percentages used in determining the Maximum Rate and the percentage of the Index used in calculating the Non-Payment Rate by means of a written notice delivered at least 10 days prior to the Rate Determination Date on which the Market Agent desires to effect the change to the Corporation, the Trustee and the Auction Agent. Such notice will be effective only if it is accompanied by a Favorable Opinion.

An adjustment in the percentages used to determine the All-Hold Rate, the Maximum Rate and the Non-Payment Rate will take effect on a Rate Determination Date only if the Trustee has confirmed that:

- (i) the Trustee, the Auction Agent and the Corporation have received, by 11:00 A.M. on the Business Day immediately preceding such Rate Determination Date, a certificate from the Market Agent by

telex, telecopy, or similar means authorizing the adjustment of the percentage used to determine the All-Hold Rate, the Applicable Percentage used to determine the Maximum Rate and the percentage of the Index used in determining the Non-Payment Rate which will be specified in such authorization, and confirming that a Favorable Opinion is expected to be received with respect thereto; and

- (ii) the Trustee and the Auction Agent have received by 9:30 A.M. on such Rate Determination Date a Favorable Opinion.

If any of the conditions referred to in (i) above are not met, the existing percentage used to determine the All-Hold Rate, the Applicable Percentages used to determine the Maximum Rate and the percentage of the Index used to determine the Non-Payment Rate will remain in effect, and the Interest Rate on the Auction Rate Securities for the next succeeding Interest Period will be determined in accordance with the Auction Procedures. If the conditions referred to in (ii) above is not met, the existing percentage used to determine the All-Hold Rate, the percentage of the Index used to determine the Non-Payment Rate and the Applicable Percentages used to determine the Maximum Rate will remain in effect and the Interest Rate of the next succeeding Interest Period will equal the Maximum Rate on the Rate Determination Date.

Submission of Orders. So long as the ownership of the Auction Rate Securities is maintained in Book-Entry Form, an Existing Holder may sell, transfer or otherwise dispose of Auction Rate Securities only pursuant to a Bid or Sell Order (as hereinafter defined) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent in writing of such transfer. Prior to a Conversion Date and except with respect to the Rate Determination Date immediately preceding an Auction Period Conversion Date, Auctions will be conducted on each Rate Determination Date, if there is an Auction Agent on such Rate Determination Date, in the following manner.

Prior to the Submission Deadline (defined as 12:30 P.M., eastern time, on any Rate Determination Date or such other time on any Rate Determination Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time) on each Rate Determination Date:

(a) each Existing Holder of Auction Rate Securities may submit to a Broker-Dealer by telephone or otherwise information as to: (i) the principal amount of Outstanding Auction Rate Securities, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period (a "Hold Order"); (ii) the principal amount of Outstanding Auction Rate Securities, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Interest Period will be less than the rate per annum specified by such Existing Holder (a "Bid"); and/or (iii) the principal amount of Outstanding Auction Rate Securities, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Interest Period (a "Sell Order"); and

(b) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of Auction Rate Securities which each such Potential Holder offers to purchase, if the Auction Rate for the next succeeding Interest Period will not be less than the rate per annum specified by such Potential Holder (also a "Bid").

Each Hold Order, Bid and Sell Order will be an "Order." Each Existing Holder and each Potential Holder placing an Order is referred to as a "Bidder."

Subject to the provisions described below under "Validity of Orders," a Bid by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate will be less than the rate specified in such Bid, (ii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities to be determined as described below in "Acceptance and Rejection of Orders," if the Auction Rate will be equal to the rate specified in such Bid or (iii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities to be determined as described below under "Acceptance and Rejection of Orders," if the rate specified therein will be higher than the Maximum Rate and Sufficient Clearing Bids (as defined below) have not been made.

Subject to the provisions described below under “Validity of Orders,” a Sell Order by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Auction Rate Securities specified in such Sell Order or (ii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities as described below under “Acceptance and Rejection of Orders,” if Sufficient Clearing Bids have not been made.

Subject to the provisions described below under “Validity of Orders,” a Bid by a Potential Holder will constitute an irrevocable offer to purchase: (i) the principal amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate will be higher than the rate specified in such Bid or (ii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities as described below in “Acceptance and Rejection of Orders,” if the Auction Rate is equal to the rate specified in such Bid.

Each Broker-Dealer will submit in writing to the Auction Agent prior to the Submission Deadline on each Rate Determination Date all Orders obtained by such Broker-Dealer and will specify with respect to each such Order: (i) the name of the Bidder placing such Order; (ii) the aggregate principal amount of Auction Rate Securities that are the subject of such Order; (iii) to the extent that such Bidder is an Existing Holder: (a) the principal amount of Auction Rate Securities, if any, subject to any Hold Order placed by such Existing Holder; (b) the principal amount of Auction Rate Securities, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and (c) the principal amount of Auction Rate Securities, if any, subject to any Sell Order placed by such Existing Holder; and (iv) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder’s Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate up to the next highest one-thousandth (.001) of one percent.

If an Order or Orders covering all Outstanding Auction Rate Securities held by any Existing Holder are not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding Auction Rate Securities held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

Neither the Corporation, the Trustee nor the Auction Agent will be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

An Existing Holder may submit multiple Orders, of different types and specifying different rates, in an Auction with respect to Auction Rate Securities then held by such Existing Holder. An Existing Holder that offers to purchase additional Auction Rate Securities is, for purposes of such offer, treated as a Potential Holder.

Any Bid specifying a rate higher than the Maximum Rate will (i) be treated as a Sell Order if submitted by an Existing Holder and (ii) not be accepted if submitted by a Potential Holder.

Validity of Orders. If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding Auction Rate Securities held by such Existing Holder, such Orders will be considered valid as follows and in the order of priority described below.

Hold Orders. All Hold Orders will be considered valid, but only up to the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder, and if the aggregate principal amount of Auction Rate Securities subject to such Hold Orders exceeds the aggregate principal amount of Auction Rate Securities held by such Existing Holder, the aggregate principal amount of Auction Rate Securities subject to each such Hold Order will be reduced pro rata so that the aggregate principal amount of Auction Rate Securities subject to all such Hold Orders equals the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder.

Bids. Any Bid will be considered valid up to the amount of the excess of the principal amount of Outstanding Auction Rate Securities held by such Existing Holder over the aggregate principal amount of Auction Rate Securities subject to any Hold Orders referred to above. Subject to the preceding sentence, if multiple Bids with the same rate are submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding Auction Rate Securities subject to such Bids is greater than such excess, such Bids will be considered valid up to the amount of such excess. Subject to the two preceding sentences, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids will be considered valid first in the ascending order of their respective rates until the

highest rate is reached at which such excess exists and then at such rate up to the amount of such excess. In any event, the aggregate principal amount of Outstanding Auction Rate Securities, if any, subject to Bids not valid under the provisions described above will be treated as the subject of a Bid by a Potential Holder at the rate therein specified.

Sell Orders. All Sell Orders will be considered valid up to the amount of the excess of the principal amount of Outstanding Auction Rate Securities held by such Existing Holder over the aggregate principal amount of Auction Rate Securities subject to valid Hold Orders and valid Bids as referred to above.

If more than one Bid for Auction Rate Securities is submitted on behalf of any Potential Holder, each Bid submitted will be a separate Bid with the rate and principal amount therein specified. Any Existing Holder that offers to purchase additional Auction Rate Securities is, for purposes of such offer, treated as a Potential Holder. Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination will be rejected and will be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination will be rejected. Any Bid specifying a rate higher than the Maximum Rate will be (i) treated as a Sell Order if submitted by an Existing Holder and (ii) will not be accepted if submitted by a Potential Holder. Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Rate Determination Date will be irrevocable.

A Hold Order, a Bid or a Sell Order that has been determined valid pursuant to the procedures described above is referred to as a "Submitted Hold Order," a "Submitted Bid" and a "Submitted Sell Order," respectively (collectively, "Submitted Orders").

Determination of Sufficient Clearing Bids and Winning Bid Rate. Not earlier than the Submission Deadline on each Rate Determination Date, the Auction Agent will assemble all valid Submitted Orders and will determine:

(a) the excess of the total principal amount of Outstanding Auction Rate Securities over the sum of the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Rate Securities"); and

(b) from such Submitted Orders whether the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Rate exceeds or is equal to the sum of (i) the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Rate and (ii) the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Sell Orders (in the event such excess or such equality exists other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders, such Submitted Bids by Potential Holders described above will be hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(c) if Sufficient Clearing Bids exist, the "Winning Bid Rate" will be the lowest rate specified in such Submitted Bids such that if:

- (i) each such Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bids); and
- (ii) each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying lower rates, were accepted,

the result would be that such Existing Holders described in subparagraph (i) above would continue to hold an aggregate principal amount of Outstanding Auction Rate Securities which, when added to the aggregate principal amount of Outstanding Auction Rate Securities to be purchased by such Potential Holders described in subparagraph (ii) above, would equal not less than the Available Auction Rate Securities.

Notice of Auction Rate. Promptly after the Auction Agent has made the determinations described above, the Auction Agent will advise the Trustee and the Corporation of the Maximum Rate, the All-Hold Rate and the components thereof on the Rate Determination Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period as follows:

(a) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Interest Period will be equal to the Winning Bid Rate so determined;

(b) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period will be equal to the Maximum Rate; or

(c) if all Outstanding Auction Rate Securities are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period will be equal to the All-Hold Rate.

Acceptance and Rejection of Orders. Existing Holders will continue to hold the principal amount of Auction Rate Securities that are subject to Submitted Hold Orders. Submitted Bids and Submitted Sell Orders will be accepted or rejected and the Auction Agent will take such other action as described below under “Sufficient Clearing Bids.”

Sufficient Clearing Bids. If Sufficient Clearing Bids have been made, all Submitted Sell Orders will be accepted and, subject to the denomination requirements described below, Submitted Bids will be accepted or rejected as follows in the following order of priority and all other Submitted Bids will be rejected:

(a) Existing Holders’ Submitted Bids specifying any rate that is higher than the Winning Bid Rate will be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(b) Existing Holders’ Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(c) Potential Holders’ Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be accepted;

(d) Each Existing Holder’s Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bid, unless the aggregate principal amount of Auction Rate Securities subject to all such Submitted Bids will be greater than the principal amount of Auction Rate Securities (the “remaining principal amount”) equal to the excess of the Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subparagraphs (b) and (c) above, in which event such Submitted Bid of such Existing Holder will be rejected in part and such Existing Holder will be entitled to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the remaining principal amount by a fraction, the numerator of which will be the principal amount of Outstanding Auction Rate Securities held by such Existing Holder subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding Auction Rate Securities subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(e) Each Potential Holder’s Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be accepted, but only in an amount equal to the principal amount of Auction Rate Securities obtained by multiplying the excess of the aggregate principal amount of Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subparagraphs (b), (c) and (d) above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Auction Rate Securities subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding

Auction Rate Securities subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

Insufficient Bids. If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders) subject to the denomination requirements described below, Submitted Orders will be accepted or rejected as follows in the following order of priority and all other Submitted Bids will be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate will be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(b) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate will be accepted, and specifying any rate that is higher than the Maximum Rate will be rejected; and

(c) Each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Holder will be accepted thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Auction Rate Securities subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subparagraph (b) above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which will be the aggregate principal amount of Outstanding Auction Rate Securities subject to all such Submitted Bids and Submitted Sell Orders.

All Hold Orders. If all Outstanding Auction Rate Securities are subject to Submitted Hold Orders, all Submitted Bids will be rejected.

Authorized Denominations Requirement. If, as a result of the procedures described above regarding Sufficient Clearing Bids and Insufficient Clearing Bids, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of Auction Rate Securities that is not equal to an Authorized Denomination, the Auction Agent will, in such manner as in its sole discretion it will determine, round up or down the principal amount of Auction Rate Securities to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of Auction Rate Securities purchased or sold by each Existing Holder or Potential Holder will be equal to an Authorized Denomination. If, as a result of the procedures described above regarding Insufficient Clearing Bids, any Potential Holder would be entitled or required to purchase less than a principal amount of Auction Rate Securities that is not equal to an Authorized Denomination, the Auction Agent will, in such manner as in its sole discretion it will determine, allocate Auction Rate Securities for purchase among Potential Holders so that only Auction Rate Securities in an Authorized Denomination are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Auction Rate Securities.

Based on the results of each Auction, the Auction Agent will determine the aggregate principal amount of Auction Rate Securities to be purchased and the aggregate principal amount of Auction Rate Securities to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Auction Rate Securities to be sold differs from such aggregate principal amount of Auction Rate Securities to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer will deliver, or from which Broker-Dealers acting for one or more sellers such Broker-Dealer will receive, as the case may be, Auction Rate Securities.

Neither the Corporation nor any affiliate of the Corporation may submit an Order in any Auction.

Any calculation by the Auction Agent (or the Market Agent, if applicable) of the Auction Rate, the "AA" Financial Commercial Paper Rate, the Maximum Rate, the All-Hold Rate, and the Non-Payment Rate will, in the absence of manifest error, be binding on all other parties.

Settlement Procedures. The Auction Agent is required to advise each Broker-Dealer that submitted an Order in an Auction of the Auction Rate for the next Interest Period, whether there were Sufficient Clearing Bids in such Auction, and, if such Order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone not later than 3:00 P.M., eastern time, on the Rate Determination Date. Each Broker-Dealer that submitted an Order on behalf of a Bidder is required to then advise such Bidder of the Auction Rate for the next Interest Period and, if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, confirm purchases and sales with each Bidder purchasing or selling Auction Rate Securities as a result of the Auction and advise each Bidder purchasing or selling Auction Rate Securities as a result of the Auction to give instructions to its Agent Member to pay the purchase price against delivery of such Auction Rate Securities or to deliver such Auction Rate Securities against payment therefor, as appropriate. Pursuant to the Auction Agent Agreement the Auction Agent will record each transfer of Auction Rate Securities on the Existing Holders Registry to be maintained by the Auction Agent.

In accordance with DTC's normal procedures, on the Business Day after the Rate Determination Date, the transactions described above will be executed through DTC, so long as DTC is the Securities Depository, and the accounts of the respective Agent Members at DTC will be debited and credited and Auction Rate Securities delivered as necessary to effect the purchases and sales of Auction Rate Securities as determined in the Auction. Purchasers are required to make payment through their Agent Members in same-day funds to DTC against delivery through their Agent Members. DTC will make payment in accordance with its normal procedures, which now provide for payment against delivery by its Agent Members in immediately available funds.

If any Existing Holder selling Auction Rate Securities in an Auction fails to deliver such Auction Rate Securities, the Broker-Dealer of any person that was to have purchased Auction Rate Securities in such Auction may deliver to such person a principal amount of Auction Rate Securities that is less than the principal amount of Auction Rate Securities that otherwise was to be purchased by such person but in any event equal to an Authorized Denomination. In such event, the principal amount of Auction Rate Securities to be delivered will be determined by such Broker-Dealer. Delivery of such lesser principal amount of Auction Rate Securities will constitute good delivery. Neither the Trustee nor the Auction Agent will have any responsibility or liability with respect to the failure of a Potential Holder, Existing Holder or their respective Broker-Dealer or Agent Member to deliver the principal amount of Auction Rate Securities or to pay for the Auction Rate Securities purchased or sold pursuant to an Auction or otherwise. For a further description of the settlement procedures, see Appendix F-2 – "SETTLEMENT PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS."

Trustee and Corporation Not Responsible for Auction Agent, Market Agent and Broker-Dealers

Neither the Trustee nor the Corporation will be liable or responsible for the actions of or failure to act by the Auction Agent, the Market Agent or any Broker-Dealer under the Resolutions or under the Auction Agent Agreement, the Market Agent Agreement or any Broker-Dealer Agreement, except as otherwise provided in any such agreement. The Trustee and the Corporation may conclusively rely upon any information required to be furnished by the Auction Agent, the Market Agent or any Broker-Dealer without undertaking any independent review or investigation of the truth or accuracy of such information.

Changes in Auction Terms

Changes in Auction Period or Periods. While any of the Auction Rate Securities are Outstanding, the Corporation may, from time to time, change the length of one or more Auction Periods for any or all Series of Auction Rate Securities pursuant to an Auction Period Adjustment in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the Interest Rate borne by the Auction Rate Securities (an "Auction Period Adjustment"); provided that the Corporation will have received a Rating Affirmation from each Rating Agency and a Favorable Opinion. The Corporation will not initiate such change in the length of the Auction Period unless it will have received the written consent of the Market Agent, which consent shall not be unreasonably withheld, not less than 15 days nor more than 20 days prior to the Auction Period Adjustment. The Corporation will initiate an Auction Period Adjustment by giving written notice to the Trustee, the Auction Agent, the Market Agent and the Securities Depository and each Rating Agency in substantially the form of, or containing substantially the

information contained in, the Resolutions at least 10 days prior to the Rate Determination Date for such Auction Period.

The length of any such adjusted Auction Period pursuant to an Auction Period Adjustment is subject to the limitations thereon set forth in the definition of an Auction Period Adjustment.

A change in the length of any Auction Period will not be allowed unless Sufficient Clearing Bids existed at both the Auction immediately preceding the date on which the notice of the proposed change was given as described above and the Auction immediately preceding the proposed change.

The Auction Adjustment will take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 A.M., eastern time, on the Business Day before the Rate Determination Date for the first such Auction Period, a Rating Affirmation from each Rating Agency and a Certificate from the Corporation authorizing an Auction Period Adjustment specified in such Certificate and (B) Sufficient Clearing Bids exist or all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders at the Auction on the Rate Determination Date for such first Auction Period. If the condition referred to in (A) is not met, the Auction Rate will be determined pursuant to the Auction Procedures and the Auction Period will be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met, but the condition referred to in (B) above is not met, the Auction Rate will be the Maximum Rate and the Auction Period will be the Auction Period determined without reference to the proposed change.

The Corporation may, from time to time, change the length of one or more Auction Periods pursuant to an Auction Period Conversion. In the event of a failed Auction Period Conversion, the Interest Rate for the Auction Period for which the proposed Auction Period Conversion was to have been effective will be the Maximum Rate, and the Auction Period will remain the same.

Changes in the Rate Determination Date. So long as any Series of the Auction Rate Securities bear interest at an Auction Rate, the Market Agent, with the written consent of the Corporation, may specify an earlier Rate Determination Date (but in no event more than five Business Days earlier) than the Rate Determination Date that would otherwise be determined in accordance with the definition of Rate Determination Date for such Series with respect to one or more specified Auction Periods in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting a Rate Determination Date and the Interest Rate borne on the Auction Rate Securities. The Corporation will not consent to such change in the Rate Determination Date unless the Corporation will have received from the Market Agent not less than three days nor more than 20 days prior to the effective date of such change a written request for consent together within a certificate demonstrating the need for change in reliance on such factors. The Market Agent will provide notice of its determination to specify an earlier Rate Determination Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Rate Determination Date to the Trustee, the Auction Agent, the Corporation and the Securities Depository.

Changes in the Interest Payment Dates. The Corporation may change the Interest Payment Date with respect to the Auction Rate Securities to or from semi-annual payments on May 1 and November 1 of each year to or from the Interest Payment Dates specified in the notice of such change described below in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the date on which interest should be paid and the Interest Rate borne on the Auction Rate Securities. The Corporation will not initiate such change in the Interest Payment Date unless it receives: (i) a Rating Affirmation from each Rating Agency; (ii) a Favorable Opinion; and (iii) the written consent of the Market Agent, which consent must not be unreasonably withheld, not less than three days nor more than 20 days prior to the effective date of such change. The Corporation will initiate the change in the Interest Payment Date of the Auction Rate Securities by giving written notice to the Trustee, the Auction Agent, the Market Agent and the Securities Depository.

A change in the Interest Payment Date for the Auction Rate Securities will not be allowed unless Sufficient Clearing Bids existed at both the Auction for the Auction Rate Securities before the date on which the notice of the proposed change was given as provided in the Resolutions and the Auction for the Auction Rate Securities immediately preceding the proposed change.

The changes in Auction terms described above must be made with respect to all of the Auction Rate Securities of a Series. In connection with any change in Auction Terms described above, the Auction Agent will provide such further notice to such parties as is specified in the Auction Agent Agreement.

Appendix F-1

Settlement Procedures for the Senior Series 2001A Bonds

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APPENDIX F-1

SETTLEMENT PROCEDURES FOR THE SENIOR SERIES 2001A BONDS

If not otherwise defined below, capitalized terms used below will have the meanings given such terms in the Resolutions (and described in Appendix B of this Official Statement) and in Appendix E-1 of this Official Statement. The procedures described in this Appendix F-1 apply only to the Senior Series 2001A Bonds which are referred to in Appendix E-1 as Auction Rate Securities and apply to each Series of Auction Rate Securities separately.

(a) Not later than (1) 3:00 P.M., eastern time, if the Interest Rate is the Auction Rate or (2) 4:00 P.M., eastern time, if the Interest Rate is the Net Loan Rate, on each Rate Determination Date, the Auction Agent will notify by telephone each Broker-Dealer that participated in the Auction held on such Rate Determination Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

- (i) the Auction Rate fixed for the next Interest Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer (a “Seller’s Broker-Dealer”) submitted Bids or Sell Orders on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be purchased or sold by such Existing Holder;
- (iv) if such Broker-Dealer (a “Buyer’s Broker-Dealer”) submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be purchased by such Potential Holder;
- (v) if the aggregate amount of Auction Rate Securities to be sold by all Existing Holders on whose behalf such Seller’s Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of Auction Rate Securities to be purchased by all Potential Holders on whose behalf such Buyer’s Broker-Dealer submitted a Bid, the name or names of one or more Buyer’s Broker-Dealers (and the name of the Agent Member, if any, of each such Buyer’s Broker-Dealer) acting for one or more purchasers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be purchased from one or more Existing Holders on whose behalf such Seller’s Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer’s Broker-Dealers acted;
- (vi) if the principal amount of Auction Rate Securities to be purchased by all Potential Holders on whose behalf such Buyer’s Broker-Dealer submitted a Bid exceeds the amount of Auction Rate Securities to be sold by all Existing Holders on whose behalf such Seller’s Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller’s Broker-Dealers (and the name of the Agent Member, if any, of each such Seller’s Broker-Dealer) acting for one or more sellers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be sold to one or more Potential Holders on whose behalf such Buyer’s Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller’s Broker-Dealers acted; and
- (vii) the Rate Determination Date for the next succeeding Auction.

(b) On each Rate Determination Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder will:

- (i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Rate Determination Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Buyer's Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay to such Buyer's Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of the Auction Rate Securities to be purchased pursuant to such Bid against receipt of such Auction Rate Securities;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Seller's Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Seller's Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Auction Rate Securities to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Rate Determination Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Rate Determination Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b)(ii) above, and any Auction Rate Securities received by it in connection with such Auction pursuant to paragraph (b)(iii) above, among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Rate Determination Date:

(i) each Potential Holder and Existing Holder with an Order in the Auction on such Rate Determination Date will instruct its Agent Member as provided in (b)(ii) or (b)(iii) above, as the case may be:

(ii) each Seller's Broker-Dealer that is not an Agent Member of the Securities Depository will instruct its Agent Member to (A) pay through the Securities Depository to the Agent Member of the Existing Holder delivering Auction Rate Securities to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such Auction Rate Securities against receipt of such Auction Rate Securities and (B) deliver such Auction Rate Securities through the Securities Depository to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not an Agent Member in the Securities Depository will instruct its Agent Member to pay through the Securities Depository to Seller's Broker-Dealer (or its Agent Member) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the Auction Rate Securities to be purchased pursuant to (b)(ii) above against receipt of such Auction Rate Securities.

(e) On the Business Day following each Rate Determination Date;

(i) each Agent Member for a Bidder in the Auction on such Rate Determination Date referred to in (d)(i) above will instruct the Securities Depository to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and the Securities Depository will execute such transactions;

(ii) each Seller's Broker-Dealer or its Agent Member will instruct the Securities Depository to execute the transactions described in (d) (ii) above for such Auction, and the Securities Depository will execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Agent Member will instruct the Securities Depository to execute the transactions described in (d)(iii) above for such Auction, and the Securities Depository will execute such transactions.

(f) If an Existing Holder selling Auction Rate Securities in an Auction fails to deliver such Auction Rate Securities (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of Auction Rate Securities that is less than the principal amount of Auction Rate Securities that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of Auction Rate Securities to be so delivered will be determined solely by such Broker-Dealer, but only in authorized denominations. Delivery of such lesser principal amount of Auction Rate Securities will constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of Auction Rate Securities which represents any departure from the results of an Auction, as determined by the Auction Agent, will be of no effect unless and until the Auction Agent has been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements. Neither the Trustee nor the Auction Agent will have any responsibility or liability with respect to the failure of a Potential Holder, Existing Holder or their respective Broker-Dealer or Agent Member to take delivery of or deliver, as the case may be, the principal amount of the Auction Rate Securities or to pay for the Auction Rate Securities purchased or sold pursuant to an Auction or otherwise.

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Appendix F-2

Settlement Procedures for the Subordinate Series 2001B Bonds

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APPENDIX F-2

SETTLEMENT PROCEDURES FOR THE SUBORDINATE SERIES 2001B BONDS

If not otherwise defined below, capitalized terms used below will have the meanings given such terms in the Resolutions (and described in Appendix B of this Official Statement) and in Appendix E-2 of this Official Statement. The procedures described in this Appendix F-2 apply only to the Subordinate Series 2001B Bonds which are referred to in Appendix E-2 as Auction Rate Securities and apply to each Series of Auction Rate Securities separately.

(a) Not later than 3:00 P.M. on each Rate Determination Date, the Auction Agent will notify by telephone each Broker-Dealer that participated in the Auction held on such Rate Determination Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

- (i) the Auction Rate fixed for the next Interest Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer (a “Seller’s Broker-Dealer”) submitted Bids or Sell Orders on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be purchased or sold by such Existing Holder;
- (iv) if such Broker-Dealer (a “Buyer’s Broker-Dealer”) submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be purchased by such Potential Holder;
- (v) if the aggregate amount of Auction Rate Securities to be sold by all Existing Holders on whose behalf such Seller’s Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of Auction Rate Securities to be purchased by all Potential Holders on whose behalf such Buyer’s Broker-Dealer submitted a Bid, the name or names of one or more Buyer’s Broker-Dealers and the name of the Agent Member, if any, of each such Buyer’s Broker-Dealer acting for one or more purchasers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be purchased from one or more Existing Holders on whose behalf such Seller’s Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer’s Broker-Dealers acted;
- (vi) if the principal amount of Auction Rate Securities to be purchased by all Potential Holders on whose behalf such Buyer’s Broker-Dealer submitted a Bid exceeds the amount of Auction Rate Securities to be sold by all Existing Holders on whose behalf such Seller’s Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller’s Broker-Dealers (and the name of the Agent Member, if any, of each such Seller’s Broker-Dealer) acting for one or more sellers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be sold to one or more Potential Holders on whose behalf such Buyer’s Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller’s Broker-Dealers acted;
- (vii) unless previously provided, a list of all applicable Auction Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and
- (viii) the Rate Determination Date for the next succeeding Auction.

(b) On each Rate Determination Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder will:

- (i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Rate Determination Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;
- (ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Buyer's Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay to such Buyer's Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of the Auction Rate Securities to be purchased pursuant to such Bid against receipt of such Auction Rate Securities;
- (iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Seller's Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Seller's Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of the Auction Rate Securities to be sold pursuant to such Order against payment therefor;
- (iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period;
- (v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Rate Determination Date; and
- (vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Rate Determination Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b)(ii) above, and any Auction Rate Securities received by it in connection with such Auction pursuant to paragraph (b)(iii) above, among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Rate Determination Date:

- (i) each Potential Holder and Existing Holder with an Order in the Auction on such Rate Determination Date will instruct its Agent Member as provided in (b)(ii) or (b)(iii) above, as the case may be;
- (ii) each Seller's Broker-Dealer that is not an Agent Member of the Securities Depository will instruct its Agent Member to (A) pay through the Securities Depository to the Agent Member of the Existing Holder delivering Auction Rate Securities to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such Auction Rate Securities against receipt of such Auction Rate Securities, and (B) deliver such Auction Rate Securities through the Securities Depository to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

- (iii) each Buyer's Broker-Dealer that is not an Agent Member in the Securities Depository will instruct its Agent Member (A) to pay through the Securities Depository to Seller's Broker-Dealer (or its Agent Member) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the Auction Rate Securities to be purchased pursuant to (b)(ii) above against receipt of such Auction Rate Securities and (B) deliver such Auction Rate Securities through the Securities Depository to the Agent Member of the purchaser against payment therefor.

(e) On the Business Day following each Rate Determination Date:

- (i) each Agent Member for a Bidder in the Auction on such Rate Determination Date referred to in (d)(i) above will instruct the Securities Depository to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and the Securities Depository will execute such transactions;
- (ii) each Seller's Broker-Dealer or its Agent Member will instruct the Securities Depository to execute the transactions described in (d)(ii) above for such Auction, and the Securities Depository will execute such transactions; and
- (iii) each Buyer's Broker-Dealer or its Agent Member will instruct the Securities Depository to execute the transactions described in (d)(iii) above for such Auction, and the Securities Depository will execute such transactions.

(f) If an Existing Holder selling Auction Rate Securities in an Auction fails to deliver such Auction Rate Securities (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of Auction Rate Securities that is less than the principal amount of Auction Rate Securities that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of Auction Rate Securities to be so delivered will be determined solely by such Broker-Dealer, but only in Authorized Denominations. Delivery of such lesser principal amount of Auction Rate Securities will constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of Auction Rate Securities which represents any departure from the results of an Auction, as determined by the Auction Agent, will be of no effect unless and until the Auction Agent has been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements. Neither the Trustee nor the Auction Agent will have any responsibility or liability with respect to the failure of a Potential Holder, Existing Holder or their respective Broker-Dealer or Agent Member to take delivery of or deliver, as the case may be, the principal amount of the Auction Rate Securities or to pay for the Auction Rate Securities purchased or sold pursuant to an Auction or otherwise.

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